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Follow-up to and Implementation of the Outcome of the International Conference on Financing for Development

Follow-up to and implementation of the outcome of the International Conference on Financing for Development

Report of the Secretary-General**

Summary

The present report, although self-standing, updates the comprehensive review of the implementation of the Monterrey Consensus included in the report of the Secretary-General to the High-level Dialogue on Financing for Development (A/58/216), held in New York on 29 and 30 October 2003, and also responds to General Assembly resolution 58/230. It should be read in conjunction with the reports of the Secretary-General on international financial system and development (A/59/218), on external debt crisis and development (A/59/219), on international trade and development (A/59/305), the note of the Secretary-General on innovative sources of financing for development (A/59/272) and the report of the Secretary-General of UNCTAD on World Commodity Trends and Prospects (A/59/304). It reflects uneven progress in achieving the goals set out in the Monterrey Consensus, suggesting that strengthening implementation efforts in all areas of the Consensus — national, international and systemic — continues to be essential. Thus, the recommendations contained in the previous report (A/58/216) remain valid today.

* A/59/150.

** The present report was prepared in consultation with the major institutional stakeholders in the financing for development process, and was submitted to Conference Services on 16 August 2004.

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I. Introduction

1. The present report responds to paragraph 72 of the Monterrey Consensus of the International Conference on Financing for Development, endorsed by the General Assembly in its resolution 56/210 B, in which the Secretary-General was requested to submit an annual report on follow-up efforts by all relevant stakeholders of the financing for development process, and to resolution 58/230, in which the Secretary-General was requested to submit an annual analytical assessment of the state of the implementation of the Monterrey Consensus, including the implementation of that resolution, to be prepared in full collaboration with the major institutional stakeholders. The report provides an account of initiatives and commitments undertaken by Governments and major institutional and non-institutional stakeholders since the previous report of the Secretary-General (A/58/216). It draws on inputs received from the major institutional stakeholders and has been prepared in consultation and collaboration with them. However, as in previous years, not all the ideas put forward necessarily represent the views of all those consulted, and the responsibility for the contents of the present report rests solely with the United Nations. Detailed information on the multifaceted activities carried out by stakeholders in follow-up to the Conference is posted and updated regularly on the financing for development web site at www.un.org/esa/ffd.

2. The Monterrey Consensus represented a compact among United Nations Member States recognizing that the actions in its several chapters to ensure financing for development be mutually consistent and reinforcing. However, to date, implementation has been uneven, and substantial improvements in coordinating development efforts remain necessary. It is now generally agreed that a doubling of official development assistance (ODA) flows from their 2001 levels would be the minimum required to achieve the Millennium Development Goals by 2015. It is also generally recognized that meeting these goals will deal merely with the symptoms of underdevelopment in the majority of Member States. Additional financing will be required to allow them to achieve debt sustainability and the stable growth required to support permanent increases in per capita incomes. While the majority of developing countries have taken important steps to improve their domestic environments in preparation for increased financing for growth, many remain disappointed with the results; the increase in financial flows has not been sufficient to ensure achievement of the Millennium Development Goals. Some have referred to this as the Monterrey "development deficit". Although developed countries have improved their official assistance to developing countries and many have set future target dates to achieve the goal of 0.7 per cent of gross national income (GNI), actual increases in net financial flows have been small in the overall context of declining low levels of private financial flows for foreign direct investment (FDI) and negative portfolio flows. While the renewed impetus to initiate the Doha work programme is to be welcomed, continued multilateral efforts will be required to ensure that its development dimension is fully achieved in the negotiation process. Finally, as has been recognized by Member States, actions to ensure progress in the area of systemic issues covered in the Monterrey Consensus, including the commitment to enhancing further the coherence and the consistency of the international monetary, financial and trading systems, are necessary to complement national development efforts.

II. Mobilizing domestic financial resources for development

3. An important number of developing countries have increased efforts to improve different aspects of governance, but with varying results across countries. While some regions and countries have made gains in attaining peace and security, in many cases through regional efforts, in a number of areas civil strife and military conflict persist or have intensified, creating serious obstacles to institutional reform and improved governance.

4. Progress has been made in developing participatory political systems, but results have been more modest in enhancing transparency and accountability in Government, implementing the rule of law and the control of corruption.[1] The United Nations Convention against Corruption was adopted by the General Assembly in its resolution 58/4 and opened for signature at a high-level political signing conference, held in Merida, Mexico, in December 2003. At the time of writing, there are 111 signatories and 4 parties to the Convention.[2] Regional cooperation initiatives, such as the African Peer Review Mechanism of the New Partnership for Africa's Development (NEPAD), which also deals with the above issues, have continued to be implemented.[3]

5. Many developing countries have continued to make progress in their efforts to formulate and implement domestic policies to improve fiscal management and the use of public resources in social expenditure and investment in development that are conducive to long-term economic and employment growth and poverty reduction, as called for in the Monterrey Consensus. Though results have been varied, many developing countries have continued to make gradual progress in public financial management reform via the adoption and improved implementation of medium-term fiscal frameworks to improve fiscal accountability and transparency. This has allowed the linkage between fiscal resources and development and poverty reduction goals to be strengthened. Some middle-income and a few low-income countries have been able to stabilize the delivery of social services and budget better for infrastructure spending. In these countries, recent experience indicates that implementation is a challenging and necessarily long-term process that demands a high level of management capacity.[4]

6. While countries have continued to make progress in improving macroeconomic policy management, most remain vulnerable to shocks from the global economy. The impact of the latest business cycle on developing countries has again underscored the limited capacity of many developing countries to conduct counter-cyclical monetary and fiscal policies to deal with domestic imbalances and the adverse impact of external shocks. Measures already taken to enhance macroeconomic management capacity include the improvement of public debt profiles, the establishment of national commodity and fiscal stabilization funds and reform and strengthening of the tax code and tax administration. In addition, policies that mitigate the adverse impact of short-term global economic conditions are important to ensuring longer-term policy objectives of strong and stable economic growth, sustained employment creation and poverty reduction. Overall policy effectiveness should thus be the objective of assistance programmes, and multilateral agreements and associated conditionalities.

7. Despite the recovery of economic growth in many developing countries, unemployment and underemployment remain major problems, and employment

growth has improved only in a small number of countries in Asia. High unemployment, particularly high youth unemployment,[5] is more than a cyclical problem in countries in Africa, Latin America and Western Asia. A major challenge in poverty reduction and social development is the design and implementation of structural policies, such as implementation of education and job-training programmes and measures that improve access for women and youth to these services to facilitate the match between the demand and the supply of workers, consistent with macroeconomic policies conducive to cyclical stabilization of employment.[6]

8. Within the framework of internationally agreed development goals, including those in the United Nations Millennium Declaration (General Assembly resolution 55/2) and the Monterrey Consensus on national and international policies to achieve these goals, there is growing recognition that the diversity of circumstances facing developing countries needs to be dealt with via policy differentiation among countries. This is reflected in the initiation of poverty reduction strategy papers on the basis of the specific concerns of countries participating in the Heavily Indebted Poor Countries (HIPC) Initiative process. It is important that all international assistance programmes and multilateral agreements provide adequate policy space for countries to implement nationally diverse development policies based on domestic consultation and consensus.[7]

9. The importance of developing a dynamic private sector via policies that facilitate the creation of small- and medium-size enterprises is being increasingly recognized. Efforts are also being made to improve domestic business climates through the identification of the scope and manner of regulations that enhance business activity and those that constrain it.[8] However, as noted in the report entitled "Unleashing entrepreneurship: making business work for the poor",[9] commissioned by the Secretary-General, progress still needs to be made, particularly in low income countries, in revising and simplifying regulations to expedite the formation of private business activities and to foster entrepreneurship.

10. While progress has been made in introducing reforms to improve oversight and regulatory systems for corporate governance and adherence to accounting and disclosure standards, particularly in middle-income countries,[10] continued and intensified efforts are still needed to strengthen these institutional supports and legal enforcement for the effective functioning of the private sector and to mobilize domestic and foreign private investment.

11. With technical assistance from the international financial institutions, efforts are under way in many developing countries to strengthen the financial regulatory and supervisory framework and to promote greater disclosure. Since the breadth and the depth of domestic capital markets in many developing countries have developed slowly, legal, accounting and institutional reforms remain of utmost importance for the efficient operation of these markets.[11] These actions to strengthen and expand the banking sector and financial markets also improve policy effectiveness.

12. Efforts are also ongoing in many developing countries to expand and improve access of small and medium-sized enterprises, microenterprises, the poor, women and rural populations to the financial system. Measures include the reassessment of regulatory frameworks and property and collateral laws to reduce barriers to lending, the development of innovative financial products, including savings and insurance products, increasing availability of credit information of potential

borrowers and improving the linkage between small-scale finance and microfinance with the formal financial sector. The mobilization of commercial and specialized financial institutions, including development banks, credit unions and housing banks, continues to be important in this area, as does the development of ancillary business services that can complement these efforts by supporting the operations of small- and medium-size enterprises and microenterprises and improving their access to credit. To further this process, the Financing for Development Office is organizing a multi-stakeholder dialogue on building an inclusive financial sector (see para. 71). International cooperation has also continued to play an important role, underscored by the announcement in June 2004 that, in anticipation of the International Year of Microcredit 2005, the Group of Eight (G-8) countries will work with the Consultative Group to Assist the Poor, the United Nations Capital Development Fund and relevant organizations of the United Nations system tc establish a working group to prepare a global, market-based finance initiative to stimulate sustainable, pro-poor financial sectors. It is important that these initiatives be complementary and self-reinforcing.

13. Remittances are an important complement to domestic resources of finance for developing countries.[12] They are more evenly distributed, with the poorer countries getting the larger share, are well-targeted towards poor people and increase during economic and financial crises when other private flows tend to decrease or reverse. Larger than all other private flows for several countries, preliminary work on data collection indicates that unrecorded remittances may be significantly greater than believed. An inter-agency task force on remittances comprising about 15 institutions, including the World Bank, the International Monetary Fund, the Inter-American Development Bank, the United States Agency for International Development, the United Kingdom Department for International Development and others, is undertaking further work in this area on improving remittance data, exploring ways to reduce the cost of remittances and disseminating information on remittance flows. There is also work ongoing with the Asia-Pacific Economic Cooperation (APEC) Alternative Remittance System (ARS) Initiative. A report on two case studies, which includes conclusions from the APEC Dialogue on Remittances, will be presented to the APEC finance ministers in September 2004. The Bank for International Settlements, together with the World Bank, is co-chairing a task force on developing general principles for developing cost-effective and efficient remittance systems that service providers and regulators can adopt to ensure a competitive market that provides remittance services at the lowest possible cost.

III. Mobilizing international resources for development: foreign direct investment and other private flows

14. Net private capital flows to developing countries grew in 2003 by more than $70 billion, although their level remained substantially below the average figures attained in the early 1990s. The recovery in flows was accompanied by declines in both interest rates and spreads on bonds and commercial bank credits. Although there was a decline in net inflows linked to direct investment in 2003, these flows remained positive and continued to be the largest component of private capital flows to developing countries (see table 1). However, this generally positive picture of overall improvement in private capital market flows and conditions for developing

countries should be seen against the background of negative net financial transfers for a large number of developing countries and economies in transition at a level of close to $250 billion for all developing countries in 2003.[13]

15. The question of how to attract and encourage the efficient use of FDI in a greater number of developing countries, including the least developed countries, thus remains a major challenge. FDI flows remain highly concentrated in the larger emerging market economies and the 10 largest recipient countries account for three-fourths of total FDI inflows to developing countries. China alone accounts for nearly one-third of the total.

16. To attract additional direct investments, a growing number of developing countries have strengthened their efforts to reform regulations on foreign investment and have become more aware of the importance of a favourable domestic investment environment. Many countries have entered into bilateral and multilateral investment agreements. The number of bilateral investment treaties and double taxation treaties totalled 2,265 and 2,315, respectively, by the end of 2003.[14] Moreover, an increasing proportion of free trade agreements or regional trade agreements (see paragraph 28) contain FDI provisions, and a number of countries are making efforts to establish regional and bilateral arrangements in trade and financial cooperation.

17. Efforts continue to strengthen the collection and the dissemination of information for both foreign and local investors in developing countries. There have been various initiatives by both the public and private sectors, including calls for collaboration between the public and private sectors to enhance the use of technology and the Internet for public/private dialogue and information dissemination and for investment in capacity-building for information infrastructure in developing countries.

18. An increasing number of developing countries have made improved physical infrastructure in areas such as transport, energy and telecommunications a priority. This is an important aspect of an enabling environment for FDI, and some developing countries have wide-ranging plans in that respect. Investment in infrastructure is not only necessary to provide the appropriate enabling environment for FDI; it also plays a crucial role in the effort to achieve the Millennium Development Goals. Deficient investment in these areas is particularly acute in low-income countries and in rural areas within countries, and major increases in investment of nearly double the levels of the 1990s are needed.[15] This will not only require a reversal of the decline of the past decade in public spending on infrastructure, but also increased external assistance.

19. Since the response of private investment in this area has not been adequate to the size of the challenge, the financing of infrastructure projects in certain areas may call for collaboration between the public and private sectors in order to provide the tools and measures necessary to mitigate the risks facing investors. Revisiting the question of the proper role of public sector investment and its support by the multilateral financial institutions may be appropriate. In this regard, the IMF is exploring a new approach to the design of Fund-supported lending programmes that would provide greater flexibility to accommodate additional high-quality public investment, when consistent with macroeconomic stability and fiscal sustainability. It would allow commercially run public enterprises to be excluded from fiscal

indicators and targets, and would clarify the accounting treatment of public-private partnerships.

20. The role of FDI in furthering development depends on a number of factors, not least of which are the existence of a positive overall domestic business climate and adequate infrastructure, in order to support its contribution to strengthening local enterprises, creating jobs and, in general, raising living standards. The quality of the local enterprise sector is important for attracting investment from abroad; the presence of competitive firms in dynamic expanding markets creates the linkages that enable foreign companies to channel work to local counterparts.[16] In that context, the partnership forged by the World Association of Investment Promotion Agencies, in collaboration with the United Nations Conference on Trade and Development (UNCTAD), among investment promotion agencies (with 165 members from some 140 countries as of June 2004) plays an important role by providing a venue for the exchange of information and experience with respect to investment promotion and policy-making.

21. Measures that engage businesses in the social and environmental aspects of development and building productive capacity continue to be important dimensions of mobilizing domestic and foreign investment. Diverse stakeholders, including the business sector, non-governmental organizations and international organizations, have proposed principles of corporate social responsibility. Most recently, the Global Compact, which has experienced substantial growth in its membership since inception, held its first summit in June 2004 and officially adopted a tenth principle on anti-corruption.[17] The challenge remains to work to ensure that principles of corporate social responsibility take hold in business entities and that more capital flows generate increasing per capita income in developing countries.

IV. International trade as an engine for development

22. The Decision of the World Trade Organization (WTO) General Council of 1 August 2004 setting out frameworks for future negotiations represents a major breakthrough in carrying forward negotiations in some key areas of the Doha work programme launched at the Fourth WTO Ministerial Conference in 2001. The successful conclusion of the eleventh session of UNCTAD (UNCTAD XI) in Sao Paulo in June 2004 outlined a series of policies and actions, including within the context of the Doha work programme, for maximizing development gains from international trade, the trading system and trade negotiations. In parallel, burgeoning regional trading agreements, including those between developed and developing countries, have raised questions regarding their interface with the multilateral trading system, as well as their developmental implications.

23. The Fifth WTO Ministerial Conference held in Cancún in September 2003, had instructed the General Council to take action necessary to enable countries "to move towards a successful and timely conclusion of the negotiations."[18] On 1 August 2004, the General Council agreed to negotiating frameworks in the areas of agriculture, market access for non-agricultural products, services, development issues and trade facilitation and to reinforce the priority attached to the development dimension of the Doha work programme to bring tangible and timely results for developing countries. The agreement should help end uncertainty in the multilateral trading system, calm protectionist fears and tendencies and contribute to the efforts

of developing countries and the international community to meet the Millennium Development Goals.[19]

24. The decision and the frameworks represent forward movement in several areas, in particular the commitment to eliminate agricultural export subsidies, although no end-date has been set. This commitment is linked directly to the elimination of other export measures with equivalent effect, including export credits, export credit guarantee and insurance programmes with repayment periods of more than 180 days and trade-distorting practices with respect to exporting State-trading enterprises. Furthermore, rules will be developed to ensure that food aid does not displace commercial trade, and the negotiations will also consider whether all food aid could be provided in grant form. Agreement that the importance of cotton will be addressed ambitiously, expeditiously and specifically promises an early harvest of significant results, particularly for the benefit of the African least developed countries cotton producers and exporters. The decision also reaffirmed the importance of long-standing trade preferences and that preference erosion should be addressed. Special and differential treatment in favour of developing countries is an integral element in all parts of the agriculture package. At the same time, deadlines have been set for the operationalization of aspects of the Doha Work Programme, such as special and differential treatment, implementation and services. The Modalities for Negotiations on Trade Facilitation aim to clarify and improve relevant aspects of articles V, VIII and X of the General Agreement on Tariffs and Trade (GATT) 1994, with a view to further expediting the movement, release and clearance of goods, including goods in transit, and to enhance technical assistance and support for capacity-building in this area. Of particular importance to developing countries is the recognition of the principle that the extent and the timing of entering into commitments shall be related to the implementation capacities of developing and least developed countries and that, where they lack the necessary capacity, implementation will not be required. In addition, by dropping the other so-called Singapore issues — trade and investment, trade and competition policy, and transparency in government procurement — from the Doha work programme, the decision allows developing countries to focus their efforts and scarce resources on pursuing their core trade and development interests.

25. At the same time, a number of dispute settlement cases have been resolved, the results of which could have implications for negotiations. In April 2004 an earlier decision was confirmed that the special European Union arrangements for granting tariff preferences to certain developing countries under its Generalized System of Preferences scheme to combat drug production and trafficking[20] were not in conformity with GATT 1994 and were not justified under paragraph 2 (a) of the Enabling Clause. However, the decision noted that the Clause does not require identical tariff treatment for all countries, thereby providing a basis differentiation in Generalized System of Preferences tariff treatment based on objective criteria, while retaining the principle of identical treatment for similarly-situated Generalized System of Preferences beneficiaries; i.e., beneficiaries with similar development, financial and trade needs. In June 2004, a dispute settlement panel[21] found that domestic subsidies for cotton production were not in compliance with the United States WTO obligations because they exceeded WTO negotiated limits. This should have important implications for the request by four African cotton-producing countries at Cancún to phase out subsidies on cotton. An interim report by a dispute panel issued in August found that the EU subsidies to sugar exporters exceeded the

limits agreed in the Uruguay Round.[22] Several other cases dealing with anti-dumping and countervailing duties, including that dealing with regulations and methodology for calculating dumping margins ("zeroing") and amounts of subsidy, should also have an impact on the future application of anti-dumping and countervailing duties.[23]

26. The liberalization of textile trade in 2005, as mandated under the Agreement on Textiles and Clothing will be of major importance for developing countries. However, since little liberalization has taken place to date, there is the risk of market disruptions in the immediate post-Agreement period. While liberalization in textile trade can bring important benefits to developing countries with competitive advantage in this area, those that are less competitive could face uncertainties as regards maintenance of their market share. For the latter countries, adjustment support, such as the International Monetary Fund recently announced trade integration mechanism (see para. 59) may be necessary.[24]

27. The rapid expansion and the deepening of regional trade agreements continued to be a central feature of trade integration for developing countries. Currently, approximately 40 per cent of world trade takes place under regional trade agreements, and the share is expected to exceed 50 per cent by 2005. Of the 285 regional trade agreements notified to WTO by 2003, 215 are in force today, and the number in force will exceed 300 by 2007 if the 60 regional trade agreements currently under negotiation and the 30 at the proposal stage are successfully concluded.[25] Many link different regions and continents, in most cases on a bilateral basis. Traditionally governed by various unilateral preferences schemes, a number of agreements under negotiation are aimed at transforming the trade and economic relations that developing countries enjoyed with their previously preference-granting developed countries into reciprocal free trade areas, such as the pan-American negotiations for the Free Trade Area of the Americas, or wider partnership accords, as is the case with the African, Caribbean and Pacific countries-EU negotiations for the Economic Partnership Agreement under the Cotonou Agreement, or a variety of bilateral North-South agreements.

28. Recent "new generation" "WTO-plus" regional trade agreements cover not only trade in goods, but also other "behind-the-border" regulatory areas including services, investment, capital flows, intellectual property rights, government procurement, labour, environment and development cooperation, going beyond multilateral commitments. Even where multilateral rules exist, negotiations for WTO-plus regional trade agreements can transform themselves into standard-setting negotiations and can create the risk of excessive harmonization of regulatory standards in developing countries. The implications for regulatory standard-setting of regional trade agreements are particularly significant for developing countries since they may place them under pressure to adopt higher standards, such as patent protection in terms of coverage, level of protection or enforcement, thereby reducing the scope of policy flexibility available under multilateral rules applying to investment, competition policy, government procurement, environment, labour standards and measures to ensure access to essential medicines for all. As a result, Free Trade Agreements and regional trade agreements should be seen as second-best options.

29. The role of trade in financing development was also part of the discussions at the eleventh session of UNCTAD (UNCTAD-XI) held in Sao Paulo from 13-18 June

2004. The "Spirit of Sao Paulo" and the Sao Paolo Consensus emphasize that trade is not an end in itself, but a means to growth and development, and stress the importance of the quality of trade in terms of beneficial integration of developing countries into the international trading system, contributing to growth, sustainable development and poverty eradication, as well as its quantity. Improvements in quality can best be achieved by increasing supply capacity and competitiveness of exports of goods, services and commodities, including within dynamic and new sectors of world trade; improving market access and market entry conditions; and responding to interrelated areas of trade, debt and finance and technology transfer.

30. The Conference stressed that all countries have a shared interest in achieving concrete development-oriented outcomes to the Doha Work Programme. Key development components include special and differential treatment; implementation issues; recognition that market entry barriers, including product standards and technical regulations, are a major challenge to effective market access; centrality of agriculture in negotiations; non-agricultural products negotiations; services negotiations, including rule-making; infrastructural services; and in sectors of export interest to developing countries, notably mode 4; accession to WTO by least developed countries, developing countries and countries with economies in transition, consistent with WTO agreements and their development status; addressing unilateral actions inconsistent with WTO rules; problems of small, vulnerable developing countries, including small island developing States; problems of landlocked developing countries within a new global framework for transit transport cooperation for landlocked and transit developing countries; preference erosion and utilization issues, including strategies to promote adjustment by preference-dependent firms and industries; and duty-free and quota-free market access for least developed countries.

31. The importance of continued and concerted focus on commodities, including instability of world commodity prices, and the difficulties faced by commodity-dependent developing countries were also stressed at the Conference. Efforts by these countries to restructure, diversify and strengthen the competitiveness of their commodity sectors, including through local processing and reducing tariff escalation, should be supported. The potential for regional integration and cooperation to improve the effectiveness of traditional commodity sectors and support diversification efforts should be exploited.

32. With reference to the recommendations contained in the report of the Meeting of Eminent Persons on Commodity Issues, UNCTAD XI launched the idea of a global partnership in the form of an international task force on commodities.

33. South-South trade is an important aspect of an emerging new trade geography, whereby the developing countries as a whole are progressively becoming a source of growth of the world economy and trade. Although the volume of South-South trade is just over 10 per cent of total world trade, it has been growing at an annual rate of around 11 per cent in recent years. Over 40 per cent of developing country exports are to other developing countries. An invigorated and more comprehensive Global System of Trade Preferences can help expand South-South trade. A major step in this direction was taken with the announcement at UNCTAD XI of the agreement to launch a third round of Global System of Trade Preferences negotiations.

V. Increasing international financial and technical cooperation for development

34. Official development assistance (ODA) in the form of loans and grants from member countries of the Organization for Economic Cooperation and Development (OECD) Development Assistance Committee rose to $68.5 billion in 2003 from $58.3 billion in 2002, but, adjusted for inflation and exchange rate movements, the real increase was only $2.3 billion. Since this figure includes debt relief and conflict-linked expenditures, there was only a slight increase in resources directed to development efforts.[26] The share of ODA to GNI rose to 0.25 per cent from 0.23 per cent during the same period. The total aid effort of Development Assistance Committee countries to the least developed countries also rose slightly in 2002 (year of latest available data), but remained below the United Nations ODA targets for least developed countries.

35. The latest ODA projections for 2006 for the Development Assistance Committee countries are presented in table 2. It shows that, based on the most recent commitments by Development Assistance Committee countries, ODA in 2006 should reach $77 billion, a 32 per cent increase in real terms from 2002. In addition to the pledges made at Monterrey, increases in ODA could come from the new members of the EU, most of which will join the ranks of donor countries for the first time. Additional ODA could also come from the increase in the number of smaller aid programmes by middle-income countries. In 2006, the share of ODA to GNI of Development Assistance Countries is forecast to rise to 0.29 per cent, from 0.23 per cent in 2002.[27]

36. Despite the projected increase in ODA, it is widely agreed that achieving the Millennium Development Goals will require a further substantial increase in ODA to developing countries, to at least twice the 2001 levels. It is also increasingly recognized that for many of the poorer countries where the challenge is most acute, most, if not all, assistance flows will have to be provided on grant terms. It is also important to distinguish the provision of assistance for peace and security purposes, such as the war on terrorism and rebuilding efforts in war-affected zones, as additional requirements that should not be allowed to crowd out regular development aid.

37. In addition to significantly increasing ODA to achieve the Monterrey Consensus and the Millennium Development Goals, efforts to enhance aid effectiveness through more harmonized procedures and improved donor coordination have increased. The Development Assistance Committee Working Party on Aid Effectiveness and the Task Team on Harmonization and Alignment are acting to implement the commitments of the Rome high-level forum. A progress report on that work will be discussed at the upcoming second high-level forum to be held in Paris in March 2005. The Second International Roundtable on Managing for Development Results[28] was held in Marrakesh, Morocco, in February 2004, to help foster an emerging consensus on the priorities for the global partnership on managing for results. Sponsoring agencies endorsed a joint memorandum, core principles and an action plan that can serve as a foundation to broaden this consensus and take further action in coming years. The Development Committee also has called for a paper on aid effectiveness and financing modalities to be prepared for the 2004 Annual Meetings of the World Bank and the International Monetary Fund. Building on previous work, the paper will cover the role of aid,

ongoing work on aid effectiveness, absorptive capacity and innovative financing mechanisms such as an international financing facility and other options. The International Monetary and Financial Committee has also made a similar request.

38. Aid effectiveness is also being addressed at the regional level. The European Commission recently put forward proposals aimed at expediting progress on the pledge made at the Barcelona summit to enhance policy coordination and aid procedure harmonization.[29] The Economic Commission for Africa (ECA) and the Development Assistance Committee have agreed to conduct joint Africa-OECD reviews of the impact of partner country policies on Africa development programmes. NEPAD prioritizes the development issues of the region, and its peer review mechanism on economic and political governance will monitor country performance, inter alia, in the field of economic management in the context of attaining development goals. The Africa Partnership Forum was established in 2003 to focus on strategic and political issues related to the implementation of the NEPAD programme of action.[30] Brazil, along with India and South Africa, created the India-Brazil-South Africa Facility for Hunger and Poverty Alleviation, within the United Nations Development Programme. The objective of this fund is to replicate and disseminate successful social policies and projects in developing countries in the areas of improved access to health, education, sanitation and food security, among others.

39. While many countries have pledged to substantially increase their ODA over the next several years, some already face adverse fiscal constraints, and additional demands are likely to further increase those pressures. The task is, therefore, not only to mobilize resources to speed progress towards achieving the Millennium Development Goals, but also to formulate a strategy that will ensure the predictable flow of resources over the long term. In this context, it is noted that even if the Millennium Development Goals were universally attained by 2015, they would reflect only partial achievement of the overall development task. Poverty, even when reduced by half, will remain a global challenge.

40. To address this challenge, there has been increasing discussion of new and innovative ways to increase sources of international development finance. A technical group comprising the Presidents of Brazil, Chile and France, and more recently Spain, is nearing completion of a report on these issues, which will be presented at a special meeting of world leaders to be convened by the President of Brazil on 20 September. Analysis of existing proposals will also be included in the report undertaken by the World Institute for Development Economics Research and commissioned by the Secretariat at the request of the General Assembly (A/59/272, annex). Similarly, at its April 2004 meeting, the Development Committee called for the preparation of a report[31] on financing mechanisms for mobilizing additional resources, including global taxation and an international finance facility. The World Food Programme has also put forward a number of alternative proposals.

41. Few of the proposals on innovative financing mechanisms have been subjected to intergovernmental debate. However, since the need for additional financial resources for development, is urgent, and with additional analytical material becoming available, many believe that it is opportune to initiate such a debate, as soon as possible, as most of the proposals, even if accepted, would take time to become operational. The fifty-ninth session of the General Assembly would seem to be the appropriate forum for initiating those discussions at the United Nations, with

a view to begin building consensus on decisions that might be agreed at the next High-Level Dialogue on Financing for Development and the major event of the General Assembly scheduled for the fall of 2005.

VI. External debt

42. Although the total external debt of developing countries and countries with economies in transition continued to increase in 2003, by around $95 billion or 4 per cent in 2003, improved conditions were suggested by the 2 per cent decline in the ratio of external debt to GNI, the decline to 98 per cent in the external debt-to-export ratio and the decline to 15 per cent in the debt-service-to-export ratio. These improvements in aggregate measures were largely the result of continued improvements in net export balances of a small number of countries that allowed them to build higher foreign exchange reserves and to reduce the ratio of short-term loans to foreign reserves. However, in other areas such as Eastern Europe and Central Asia, East Asia and the Pacific, and Latin America and the Caribbean, the considerably faster increase in short-term debt of 11.6 per cent, relative to the 2.3 per cent increase in long-term debt, has increased vulnerability. Many low- and middle-income countries experienced increasing difficulty in meeting debt commitments, as the ratio of total debt to gross national income continued to worsen in Latin America and the Caribbean, as well as in North Africa and the Middle East, where income growth accelerated at a slower pace than in other regions. Some countries in sub-Saharan Africa and East Asia and the Pacific saw an increase in arrears, while the largest increase was due to the delay in restructuring the Argentine debt.[32]

43. Reserve accumulation has become increasingly important as a means of "self-insurance" against external financial instability and ensuring the ability to meet debt service commitments in the absence of appropriate, and less costly, counter-cyclical international mechanisms for liquidity provision. The contingency credit line (CCL), which was created by IMF in 1999 to serve this purpose, was subject to onerous pre-qualification conditions and the possibility of adverse signalling. That made it sufficiently unattractive to countries that might have qualified to opt for reserve accumulations, and the facility was never used before it lapsed in November 2003. However, the existence of the unprecedented build-up in reserves suggests that there is an unsatisfied need for some type of facility to satisfy preventive liquidity needs for developing countries.

44. The move towards debt sustainability continued as the number of countries qualifying for the full debt relief available under the Heavily Indebted Poor Countries (HIPC) Initiative at the completion point increased to 14,[33] and interim relief is being made available to another 13 countries that have reached the decision point. Because of a sunset clause, the HIPC Initiative is due to conclude at the end of the current year. The boards of IMF and the World Bank are engaged in active discussion on an extension of the initiative in order to improve the possibility of sustainability for the countries that have not yet reached the decision point, as well as those that are benefiting from the existing programme.

45. The Paris Club remains an integral part of the HIPC Initiative process, and six of the nine countries granted new agreements between July 2003 and the end of June 2004 were HIPC. Five countries that reached the completion point in 2004 obtained

a reduction of their debt stocks as the share of the Paris Club in the total relief under the HIPC Initiative, and in all cases additional bilateral commitments for relief were made by creditors to further bring down debt burdens.

46. A number of non-HIPC developing countries are facing increasing difficulty in meeting their debt service commitments.[34] Efforts to increase flexibility in dealing with their debt problems under the Evian approach[35] allow a distinction between liquidity problems and medium- and long-term solvency problems in treating the debt owed to official bilateral creditors. Thus far the new options have yet to be applied.[36]

47. It has been noted that while 100 per cent of the bilateral debt of the poorest countries has been cancelled by many donors, in practice relief of multilateral debt has not exceeded 50 per cent. To complete the process of debt relief, it has been proposed to use IMF gold, through revaluation or off-market transactions, as was done in the enhanced HIPC process, to match bilateral debt relief with appropriate multilateral relief of up to 100 per cent.[37]

48. Out of concern that developing countries be better assisted to manage their external debt, the IMF introduced, in 2002, a new debt sustainability framework for assessing the probable evolution of the debt situation of a country, and in 2004 the Fund, jointly with the World Bank, proposed a special debt sustainability framework for low-income countries whose primary creditors are official institutions.[38] The new approach is meant to assist countries that have emerged from the HIPC process and other low-income countries, as well as their creditors, to better assess the implications of new lending programmes for debt sustainability. It emphasizes the need for greater provision of official development assistance to low-income countries in the form of grants. Among other considerations is the differing capacities and qualities of economic policy-making, in particular of the ability of countries to work towards achieving the Millennium Development Goals. This is particularly important for countries that have not yet reached the decision point, since eight are either conflict-affected or post-conflict countries, and that have accumulated large and protracted arrears vis-à-vis the international financial institutions, in some cases since the mid-1980s.

49. Crisis prevention and resolution are both part of financial stability and debt sustainability. IMF and the World Bank have created the Financial Sector Assessment Programme to identify the strengths and the vulnerabilities of the financial system of a country to determine how key sources of risk are being managed and to provide assessments of observance of relevant financial sector standards and codes in reports on observance of standards and codes and financial system stability assessments. The Financial Sector Reform and Strengthening Initiative, a $53 million multidonor programme, also supports capacity-building and policy development projects in developing countries. The International Task Force on Commodity Risk Management in Developing Countries provides support to producers, developing country organizations and Governments to manage the impact of volatility on commodity production and earnings.

50. Restructuring debt owed to private creditors is also an important aspect of external debt crisis resolution. The experience of recent financial crises and disruptions in emerging market economies renewed interest in proposals to facilitate restructuring of sovereign bond debt, which have been under discussion since the Latin American debt crisis of the 1980s. The absence of consensus on the recent

proposals for a sovereign debt restructuring mechanism leaves the introduction of collective action clauses into individual bond issues and the development of a voluntary code of conduct by private creditors and sovereign debtors, with the support of the multilateral financial institutions, the major ongoing initiatives in this area.

51. Although there is as yet no uniform standard, a majority of emerging market international sovereign bond issues under New York law now include collective action clauses. There is no evidence yet to confirm initial concerns that the inclusion of collective action clauses in bond issues might lead to an increase in the cost of borrowing. However, the full impact on more effective restructuring will occur only when collective action clauses are included in the entire stock of outstanding securities.

52. The International Monetary and Financial Committee of the Board of Governors of the IMF and the Group of Seven (G-7) have also encouraged sovereign debtors and private creditors to continue their work on a voluntary code of conduct, which could provide a comprehensive non-statutory framework to address potential debt servicing problems while preserving, to the greatest extent possible, contractual arrangements.[39] The Group of Twenty (G-20) countries has established a technical group to prepare a draft code in cooperation with private sector representatives.[40] The intention of the code is to promote an early, voluntary dialogue between debtors and creditors on corrective policy and financial action to reduce the frequency and the severity of crises, to avoid disruptions and to achieve more equitable burden-sharing in the process of crisis resolution. An early dialogue could also lead to a more rapid rehabilitation of debtors and the restoration of market access. In order for any voluntary mechanism to function effectively, steps will have to be taken to ensure adequate measures that will guarantee equal treatment for small debtors who may not be able to negotiate as effectively as large debtors in a voluntary mechanism.

53. However, as the developing countries invited to join the G-20 discussion are among the larger emerging market economies, it would be appropriate that a draft code be further considered, as called for in paragraphs 62 and 63 of the Monterrey Consensus, in a more representative framework, in which developing countries, as well as developed countries, may participate in a voluntary, open dialogue along with creditor representatives.

54. In addition to these procedures that aim to reduce uncertainty about how a sovereign debtor under stress would deal with its private creditors, increased attention is being paid to designing more flexible external debt instruments, which may help borrowing countries develop more desirable debt structures. These could include new forms of debt such as instruments involving elements of real indexation, as well as developing deeper and more resilient domestic capital markets that would allow greater issuance of local-currency denominated bonds. Greater use of inflation-indexed bonds should encourage buyers to accept longer maturities. Larger countries with diversified export earnings could issue instruments with returns indexed to real variables closely related to their economic performance (such as GDP), while indexing to commodity prices or greater use of hedging against commodity price volatility would be appropriate for smaller countries with export revenues concentrated on a small set of commodities.[41]

VII. Addressing systemic issues: enhancing the coherence and the consistency of the international monetary, financial and trading systems in support of development

55. As indicated in section II above, over the past several years, many countries have adopted measures and policies to lessen their vulnerability to shocks, including more gradual capital account liberalization, reserve accumulation, the introduction of more flexible exchange rates, changes in liability management practices, strengthening domestic financial institutions and implementing standards and codes of good practice.

56. Multilateral surveillance of national economic and financial policies, as well as of developments in global markets, particularly by IMF, is the chief global tool for promoting coherence of national macroeconomic policies and financial stability, thereby contributing to the prevention of financial crises. It is recognized that surveillance must not only help identify imbalances and vulnerabilities, but it must also signal potential problems to policy makers and markets and prompt early action.

57. With deepening financial integration, the focus of surveillance is increasingly on system stability as a whole. Consequently, there is the need to significantly strengthen surveillance of the major industrial countries and their impact on global capital markets. At present, an important focus of surveillance could be restoring macroeconomic balance in the world economy without jeopardizing growth prospects in developing countries.

58. One of the most important regulatory developments since the 1997-1998 financial crisis has been the proposal by the Basel Committee on Banking Supervision for a new capital adequacy framework to replace the 1988 Basel Capital Accord.[42] In June 2004, the Basel Committee issued its latest proposals to amend the international capital standards. Implementation of the New Accord is scheduled to take effect in the Group of Ten (G-10) member countries by year-end 2006. Some observers have suggested that the application of the new, more risk-sensitive, capital framework may reduce foreign lending to developing countries, raise its costs and increase pro-cyclicality.[43] The Committee itself has acknowledged that moving towards its adoption in the near future may not be a first priority for non-G-10 supervisory authorities in terms of what is needed to strengthen their supervision. In many cases, it could be more important to first address deficiencies in existing supervisory and capital adequacy frameworks with appropriate assistance from the international community. While the Basel Committee has taken steps to increase consideration of the views of developing countries in this area, as there is no formal representation on the Basel Committee itself, these important issues should be addressed before the New Accord becomes operational.

59. The international community has a long-standing responsibility to provide adequate financial support to assist countries in undertaking appropriate economic adjustments to balance-of-payments problems. One of the priority areas has been trade-related financing. As indicated in paragraph 29 above, the international community is exploring ways of improving access of developing countries to trade financing, particularly in periods of financial crisis, as well as supporting countries that may suffer temporary earnings shortfalls as a result of trade liberalization or commodity price volatility. In this regard, the IMF has introduced the trade

integration mechanism to alleviate developing country concerns that their balance-of-payments positions could come under temporary pressure due to increased competition, the loss of preferential access to export markets caused by multilateral liberalization of international trade or declining terms of trade due to reductions in agricultural subsidies. The first action under the programme was an increase in the poverty reduction and growth facility of Pakistan to meet balance-of-payments pressures due to the expiry of the Agreement on Textiles and Clothing at the end of 2004 (see para. 26 above).[44]

60. Over the past several years, there have been attempts to develop some form of contingent financing that can be mobilized quickly, on a sufficiently large scale to provide financial support for middle-income countries that face potential capital account crises. The IMF is continuing discussions on the role that precautionary arrangements, possibly linked to enhanced surveillance, can play in preventing capital account crisis and on the access that is required for this insurance to be meaningful.

61. Steps have also been taken to improve clarity about IMF lending decisions in crisis resolution, especially with regard to situations when exceptional access to IMF financing may be appropriate. In April 2004, the IMF Executive Board assessed the experience with its new framework for such access, which had been applied thus far in the decisions on Argentina and Brazil, and decided not to change the exceptional access criteria. Some have suggested that efforts should be made to strengthen the Fund's "lending into arrears" policy through the development of more operational criteria for judging country compliance with the good-faith-efforts requirement to resolve its arrears to private creditors.

62. There have also been important proposals by the group of middle-income countries, such as the Rio Group initiative, aimed at examining the urgent adoption of flexible and innovative financial mechanisms to increase public and private investments.[45]

63. In accordance with paragraph 10 of resolution 58/230, the Economic and Social Council considered, at its 2004 substantive session, the report of the Secretary-General on the eleventh meeting of the Ad Hoc Group of Experts on International Cooperation in Tax Matters (E/2004/51), held in Geneva in December 2003, which included a number of suggestions in relation to the institutional framework for strengthening international cooperation in tax matters. The Council decided to continue consideration of the matter, including a proposed resolution, at its resumed session; it is hoped that an agreement can be reached on this important subject, which has been highlighted in the Monterrey Consensus and in previous reports of the Secretary-General.

64. There is increasing recognition that international financial governance structures must evolve to broaden and strengthen the participation of developing countries and countries with economies in transition in international economic decision-making and norm-setting. However, as political will to comprehensively address this important issue has not yet been fully mobilized, the international community should continue the search for acceptable solutions that can lead to possible breakthroughs in this area. Meanwhile, developing countries should try to make the most of available opportunities, including greater use of regional groupings, to have greater say and influence on the international policy agenda.

VIII. Staying engaged

65. The Monterrey Consensus envisaged the need to build a global alliance for development. Hence, all stakeholders in the Monterrey process reaffirmed their commitment to staying fully engaged — nationally, regionally and internationally — and to ensuring proper follow-up to the implementation of agreements and commitments reached at the International Conference on Financing for Development.

66. The General Assembly held its first High-Level Dialogue on Financing for Development on 29 and 30 October 2003, which focused on the assessment of the implementation of the Monterrey Consensus. More than 190 Governments, many represented at the ministerial level, along with 35 intergovernmental organizations, some represented by their most senior officers, and numerous representatives from the business sector, academia and non-governmental organizations participated in the dialogue. It was the first time in the history of the United Nations that the President of the World Bank and the Managing Director of the IMF addressed the General Assembly. The Deputy Managing Director of the WTO also addressed the General Assembly on this occasion, along with senior officials of the United Nations system and regional organizations and institutions. The outcome of the dialogue, embodied in the summary by the President of the General Assembly of the High-Level Dialogue on Financing for Development (A/58/555 and Add.1 and 2), included a number of recommendations to advance implementation of the Monterrey Consensus.

67. The Economic and Social Council held a special high-level meeting with the international trade and financial institutions on 26 April 2004 on the overall theme of "Coherence, coordination, and cooperation in the context of the implementation of the Monterrey Consensus". This meeting witnessed for the first time UNCTAD participation at the intergovernmental level, represented by the President of the Trade and Development Board. The meeting was preceded by consultations within the Economic and Social Council, and between Council bureau members and the management of the Bretton Woods institutions and WTO, as well as by meetings with Executive Directors of IMF and the Executive Board of the World Bank. The President of the Council also met with the Chairman of the General Council of WTO and the President of the Trade and Development Board. In preparation for the meeting, hearings with representatives of civil society and the business sector were held. The summary by the President of the Economic and Social Council (A/59/92 and Add.1 and 2-E/2003/73 and Add.1 and 2) covers the views expressed in plenary statements and in substantive discussions in the six round tables that were held during the meeting.

68. At its 2004 substantive session, the Council considered the President's summary and engaged in consultations on a draft resolution regarding follow-up activities, including the need for early decisions on focusing future high-level meetings on specific issues, within the holistic integrated approach of the Monterrey Consensus. It is hoped that agreement will be reached on this important matter and, more generally, on the need to consolidate and strengthen further the intergovernmental mechanisms put in place to follow up the Monterrey Consensus.

69. The Monterrey Consensus and its various elements have been adopted and put into action in the programme of work of many national Governments, multilateral

institutions, business entities and non-governmental organizations at the national, regional and international levels, thus contributing to implementation of the Consensus. For example, the G-8 summit, held at Sea Island, Georgia, United States, in June 2004, adopted an action plan entitled "Applying the power of entrepreneurship to the eradication of poverty". In follow-up, a conference will be held in the fall of 2004 to highlight and disseminate best practices in this private-sector approach to development. Another example is the Development Assistance Committee meeting, held in April 2004, which dealt with key areas of the Monterrey Consensus related to achieving the Millennium Development Goals, enhancing the voice and the participation of developing countries in decision-making processes and improving the design and the work of poverty reduction strategy papers at national levels.

70. In March 2004, two major business sector organizations involved in the Monterrey process, the Business Council for the United Nations and the International Chamber of Commerce, organized a workshop in New York, with the participation of senior representatives from both the private and public sectors, to review remaining shortcomings in the provision of information to private investors, assess existing initiatives and develop new ideas. The meeting called for collaboration between the public and private sectors to enhance the use of technology and the Internet for public/private dialogue and information dissemination and for investment in capacity-building in information infrastructure in developing countries. The meeting also considered initiatives to mitigate the risks for investors in developing countries. It highlighted the work of the group of experts on infrastructure finance, initiated at the Monterrey Conference to facilitate dialogue between the public and private sectors on promising approaches to risk-sharing, and called for increased participation in this initiative.

71. As requested in General Assembly resolution 58/230, the Financing for Development Office of the Department of Economic and Social Affairs has started organizing a series of multi-stakeholder consultations on the various chapters of the Monterrey Consensus to examine issues related to the mobilization of resources for financing development and poverty eradication and to promote best practices and exchange information on the implementation of the commitments made and agreements reached at the Monterrey Conference. The preliminary outcomes of these multi-stakeholder consultations will be presented in time for the next High-Level Dialogue on Financing for Development. In this regard, the Financing for Development Office is directly coordinating multi-stakeholder consultation in the areas of building an inclusive financial sector for development and sovereign debt for sustainable development. The Office has also engaged the World Economic Forum to conduct a series of multi-stakeholder consultations on understanding how public-private partnerships can improve the reach and the effectiveness of development assistance and on improving the climate for private investment through leveraging multilateral development banks and aid agencies to catalyse private investment and through bringing financial governance capacity-building to scale. Similarly, multi-stakeholder consultations coordinated by the New Rules for Global Finance Coalition on the topic of improving process and outcome in the global financial architecture reform have also been included in the programme.

72. The regional commissions have been actively engaged, in cooperation with other regional stakeholders including regional development banks, in the implementation of the Monterrey Consensus. The Economic Commission for

Europe organized a ministerial-level policy seminar on competitiveness and growth as part of the fifty-ninth session of the Commission in February 2004. The Economic and Social Commission for Asia and the Pacific implemented a project on capacity-building for external debt management in the era of rapid globalization, with funding support from the Republic of Korea, involving a regional workshop held in July 2004, to be followed by four national workshops. Innovative mechanisms for promoting public-private alliances in order to improve regional infrastructure were considered at the thirtieth session of the Economic Commission for Latin America and the Caribbean (ECLAC). The meeting of the African Ministers of Finance and Economic Development and Planning, organized by the Economic Commission for Africa in May 2004, considered the ECA/OECD joint work on mutual review of development effectiveness and focused on aid quality and quantity, coherence of policies and debt relief, and trade within the framework of the Millennium Development Goals, as well as on operationalizing the principle of mutual accountability. The Economic and Social Commission for Western Asia (ESCWA) addressed the issues of debt and investment, including surveys of enterprises with FDI participation in Bahrain, Oman and Saudi Arabia, and establishing FDI databases in 5 out of 13 ESCWA countries.[46]

73. The Financing for Development Office of the Department of Economic and Social Affairs has also organized a series of informal discussions and special events, as called for in resolution 58/230. For example, a high-level panel on innovative approaches to financing for development was organized on 15 June 2004 at the UNCTAD XI Conference in Sao Paulo. The event was attended by the President of Brazil and cabinet ministers from several countries, as well as the Secretary-General of the United Nations and the Secretary-General of UNCTAD, and was moderated by the Under-Secretary-General for Economic and Social Affairs. As part of a joint ECLAC/Department of Economic and Social Affairs project, a high-level seminar on the theme "Regional financial arrangements" was held in New York on 14 and 15 July 2004 with the support of the Ford Foundation, in conjunction with the substantive session of the Economic and Social Council.

74. Following the first High-Level Dialogue on Financing for Development, the General Assembly, in its resolution 58/230, decided to hold the 2005 High-Level Dialogue at the ministerial level. A decision on the precise timing of the Dialogue should be taken at the Assembly's fifty-ninth session, which will take into account the major event it has also scheduled for the commencement of its sixtieth session. A comprehensive report on the state of implementation of the outcome of the International Conference on Financing for Development will be prepared by the Secretariat to contribute to discussions in 2005. In that context, it will be relevant to keep in mind paragraph 73 of the Monterrey Consensus, which requires that the modalities of "a follow-up international conference to review the implementation of the Monterrey Consensus" be decided upon not later than 2005.

Notes

[1] See World Bank, *Global Monitoring Report 2004*, and Economic Commission for Africa, *African Governance Report 2004* (forthcoming).

[2] See A/59/203, paras. 28-31.

[3] See fifth meeting of the African Peer Review Mechanism Panel of Eminent Persons, Johannesburg, South Africa, 29 and 30 April 2004, communiqué (www.nepad.org).

[4] World Bank, *World Development Report 2004*.

[5] In its publication *Global Employment Trends for Youth 2004*, the International Labour Organization notes that while youth represent 25 per cent of the working age population between the ages of 15 and 64, in 2003 they made up as much as 47 per cent of the total 186 million unemployed and that young people represent some 130 million of the world's 550 million working poor who work but are unable to lift themselves and their families above the equivalent of the US$ 1 per day poverty line.

[6] For a detailed discussion, see World Commission on the Social Dimension of Globalization. *A Fair Globalization: Creating Opportunities for All* (ILO, 2004).

[7] See TD/L.410, paras. 8 and 24.

[8] International Bank for Reconstruction and Development/World Bank, *Doing Business in 2004: Understanding Regulation* (Washington, D.C.).

[9] See http://www.undp.org/cpsd.

[10] World Bank, *Global Monitoring Report 2004*, part II, chap. 4.

[11] See International Monetary Fund, *Global Financial Stability Report* (March 2004).

[12] See World Bank, *Global Development Finance 2003*, chap. 7, "Workers' remittances: an important and stable source of external development finance", and Devesh Kapur, "Remittances: the new development mantra?", G-24 discussion paper, No. 29 (UNCTAD/GDS/MDPB/G24/2004/5).

[13] For a detailed presentation of net resources transfers, see A/59/218, table 1.

[14] Ibid. Each bilateral investment treaty concluded in the world involves either a developing country or a Central and Eastern European country as a partner, while some four-fifths of double taxation treaties concluded in the world involve either one of these countries as a partner.

[15] See World Bank and International Monetary Fund *Global Monitoring Report 2004: Policies and Actions for Achieving the Millennium Development Goals and Related Outcomes background paper* (Washington D.C., April 16, 2004) (DC2004-0006/Add.1).

[16] This was emphasized at the recently concluded eleventh session of the United Nations Conference on Trade and Development (UNCTAD XI) in Sao Paulo; see TD/410.

[17] See "Preliminary report on the Global Compact Leaders Summit" (http://www.unglobalcompact.org).

[18] Cancún Ministerial Statement (WT/MIN (03)/W/24).

[19] See World Trade Organization, Doha Work Programme: decision adopted by the General Council on 1 August 2004 (WT/L/579).

[20] World Trade Organization, "European Communities — Conditions for the Granting of Tariff Preferences to Developing Countries" (WT/DS246/R and WT/DS246/AB/R).

[21] World Trade Organization, "United States — Subsidies on Upland Cotton — Communication from the Chairman of the Panel" (complaint by Brazil) (WT/DS267/16).

[22] WTO document WT/DS266.

[23] World Trade Organization, "United States — Final countervailing duty determination with respect to certain softwood lumber from Canada [and the United States Laws] (WT/DS257/AB/R).

[24] Some developing countries have requested an emergency meeting of the WTO Council on Trade in Goods to address the issue; see WTO press release 384 of 4 August 2004.

[25] WTO, "The changing landscape of RTAs" (Geneva, 14 November 2003).

[26] Organization for Economic Cooperation and Development, Development Assistance Committee, "Modest increase in development aid in 2003" (http://www.oecd.org).

[27] Ibid., p. 2. The report states that member States are expected to exceed their target to collectively increase average ODA from 0.33 per cent of GNI to 0.39 per cent of GNI in 2006 and reach 0.42 per cent; a number of States have indicated targets for achieving 0.7 per cent. In Monterrey, the United States also pledged to raise ODA by $5 billion a year by 2006, or a 50 per cent increase in core development assistance, through the establishment of the Millennium Challenge Account (MCA). In January 2004, Congress signed into law the Millennium Challenge Corporation (MCC), and in May it selected 16 countries as potential MCA recipients: Armenia, Benin, Bolivia, Cape Verde, Georgia, Ghana, Honduras, Lesotho, Madagascar, Mali, Mongolia, Mozambique, Nicaragua, Senegal, Sri Lanka and Vanuatu.

[28] The Roundtable reaffirmed that countries must manage their resources for development results, and development agencies must give the highest priority to strengthening recipient countries' capacity; see World Bank, DevNews Media Center, "Results focus sharpened", 12 February 2004.

[29] See Commission of the European Communities, "Communication from the Commission to the Council and the European Parliament: Translating the Monterrey Consensus into practice: the contribution by the European Union" (Brussels, 5 March 2004).

[30] The United Kingdom also launched a Commission for Africa to study how to improve sub-Saharan prospects of meeting the Millennium Development Goals. See also www.dfid.gov.uk/news/files/pr_africacomm2July04.asp.

[31] World Bank and IMF, Development Committee communiqué (Washington, D.C., 25 April 2004), para. 7.

[32] For more detailed information, see A/59/219.

[33] In 2004, Ethiopia, Ghana, Guyana, Nicaragua, Senegal and the Niger reached the completion point.

[34] At least 15 low- and middle-income countries that are not eligible for debt relief under the HIPC Initiative had debt-to-export ratios during 2000-2002 that exceeded 150 per cent; i.e., the ratio that is considered as sustainable under the Initiative; see A/59/219.

[35] The Evian approach was agreed in October 2003 by creditor countries usually taking part in Paris Club negotiations for application to non-HIPC countries. (http://www.clubdeparis.org/en/presentation); see also IMF, "Progress report to the International Monetary and Financial Committee on Crisis Resolution", sect. V (20 April 2004).

[36] Kenya, the first country to be assessed under the Evian approach, only received a flow rescheduling under Houston terms because its external debt was considered to be sustainable; consideration of Georgia has been agreed in principle, and Argentina and Nigeria are also expected to be treated under the approach.

[37] See speech by the Chancellor of the Exchequer at a seminar on the theme "Poverty and globalization: financing for development", Pontifical Council for Justice and Peace, Vatican City, 9 July 2004.

[38] IMF and the International Development Association, *Debt Sustainability in Low-Income Countries: Proposal for an Operational Framework and Policy Implications* (Washington, D.C., 2004).

[39] International Monetary Fund press release No. 04/84 (24 April 2004); and statement of the Group of Seven (G-7) finance ministers and central bank governors (Boca Raton, Florida, United States, 7 February 2004) (www.g7.utoronto.ca/finance).

[40] International Monetary Fund, progress report to the International Monetary and Financial Committee on crisis resolution (Washington, D.C., 20 April 2004).

[41] Many of these proposals are discussed in an IMF discussion paper entitled "Sovereign debt structure for crisis prevention" (2 July 2004).

[42] See Bank for International Settlements, *Basel II: International Convergence of Capital Measurement and Capital Standards: a Revised Framework*, Basel Committee Publications, No. 107 (June 2004).

[43] See *World Economic and Social Survey, 2003*, part II (United Nations publication, Sales No. E.03.II.C.1).

[44] Bangladesh has subsequently been given similar treatment.

[45] See outcomes of the seventeenth summit of the Rio Group, Cusco Consensus, Cusco, Peru, 23 and 24 May 2003, and the thirteenth Ibero-American summit, Santa Cruz de la Sierra, Bolivia, 14 and 15 November 2003.

[46] For more information on current and planned follow-up activities of the regional commissions, see www.un.org/esa/ffd/ffdregionalcommissions.htm.

Table 1
Net private financial flows to developing economies and economies in transition, 1993-2003

(Billions of US dollars)	*Average 1993-1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*
Developing economies							
Total,	163.1	47.2	66.2	30.4	2.7	20.5	92.5
of which:							
Net direct investment	87.8	130.2	145.7	149.8	164.1	112.8	102.6
Net portfolio investment	68.0	26.4	68.2	9.6	-90.8	-91.7	-75.8
Other net investment[a]	7.3	-109.5	-147.7	-129.1	-70.7	-0.6	65.7
Economies in transition							
Total,	13.5	30.2	20.4	11.8	17.9	26.5	38.7
of which:							
Net direct investment	11.2	22.7	25.5	25.2	24.9	26.5	16.7
Net portfolio investment	3.0	12.0	-2.2	-3.4	-4.9	-6.9	-11.7
Other net investment[a]	-0.7	-4.6	-2.9	-9.9	-2.2	6.9	33.7

Source: *World Economic and Social Survey 2004* (United Nations publication, Sales No. E.04.II.C.1).
[a] Including short-and long-term bank lending; owing to data limitations, may include some official flows.

Table 2
DAC members' ODA prospects for 2006: latest projections

	ODA in 2002	*ODA/GNI in 2002*	*Commitment/ announcement/ assumption*	*Year to be attained*	*Net ODA in 2006*	*ODA/GNI in 2006*	*Real change in ODA in 2006 compared with 2002 (at 2002 prices and exchange rates)*[a]
	millions of US$	*(percentage)*	*(percentage)*		*(millions of 2002 US$)*	*(percentage)*	*(percentage)*
Austria	520	0.26	0.33	2006	728	0.33	40
Belgium	1 072	0.43	0.7 (0.46 by 2006)	2010	1 234	0.46	15
Denmark	1 643	0.96	>0.7	n.a.	1 531	0.83	-7
Finland	462	0.35	0.44	2007	598	0.42	29
France[b]	5 486	0.38	0.5 (0.7 by 2012)	2007	7 378	0.47	34
Germany	5 324	0.27	0.33	2006	7 099	0.33	33
Greece	276	0.21	0.33	2006	515	0.33	86
Ireland[b]	398	0.40	0.70	2007	671	0.63	69
Italy	2 332	0.20	0.33	2006	4 195	0.33	80
Luxembourg	147	0.77	1	2005	206	1.00	41
Netherlands	3 338	0.81	0.80	"Reached"	3 566	0.80	7
Portugal	323	0.27	0.33	2006	424	0.33	31
Spain	1 712	0.26	0.33	2006	2 328	0.33	36
Sweden	1 991	0.83	Long-term goal 1% (at least 0.87 in 2006)		2 247	0.87	13
United Kingdom	4 924	0.31	0.40	2005-2006	6 906	0.40	40
EU members, total	**29 949**	**0.35**	**0.39**	**2006**	**39 627**	**0.42**	**32**
Australia[c]	989	0.26	0.26	2003-2004	1 089	0.26	10
Canada	2 006	0.28	8% annual increase to 2010		2 730	0.34	36
Japan	9 283	0.23	1998-2002 av. level ($10.5 bn)	2006	10 500	0.26	13
New Zealand	122	0.22	Future level is under review		154	0.26	27
Norway	1 696	0.89	1	2005	2 067	1.00	22
Switzerland[b]	939	0.32	0.4	2010	1 143	0.36	22
United States[d]	13 290	0.13	See footnote[d]		19 539	0.17	47
DAC members, total	**58 274**	**0.23**			**76 849**	**0.29**	**32**

Source: Organization for Economic Cooperation and Development, Development Cooperation Report, 2003, *DAC Journal*, vol. 5, No. 1 (2004).

[a] Assumes average real growth in GNI of 2 per cent (3 per cent for Canada, 4 per cent for Greece and zero for Japan) from 2002 to 2006.

[b] ODA/GNI ratio for 2006 interpolated between 2002 and year target scheduled to be attained.

[c] Estimated ODA/GNI 0.26 per cent in 2003/04; as aid volume determined in annual budgets, assumes same ratio in forward years.

[d] Assumes, for 2006, additional US$ 5 billion from the Millennium Challenge Account, US$ 2 billion from the Emergency Plan for AIDS Relief, phased spending from Iraq and Afghanistan reconstruction supplements and 2 per cent per annum inflation in the United States of America to deflate from 2006 to 2002 prices.

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General Assembly

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Fifty-ninth session
Item 110 of the provisional agenda*
Programme budget for the biennium 2004-2005

Financial viability of the United Nations Institute for Training and Research

Note by the Secretary-General

1. In section XIV of its resolution 58/272, the General Assembly requested the Secretary-General to invite the Board of Trustees of the United Nations Institute for Training and Research (UNITAR) to rationalize the financial structure of the Institute, including through the possible application of a consistent programme support rate to the Special Purpose Grants Fund in order to bring it in line with the standard rate applied by the United Nations, and decided to revert to the question at its fifty-ninth session.

2. The Board of Trustees of UNITAR considered the matter during its forty-second session, held in Geneva, from 27 to 29 April 2004. It agreed that the Executive Director would prepare a short note in response to resolution 58/272, which could be provided as the official response of the Board to the General Assembly resolution. The Secretary-General has the honour to transmit that note (see annex).

* A/59/150.

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Annex

Note on the rationalization of the financial structure of UNITAR

1. At its forty-second session, held in Geneva from 27 to 29 April 2004, the Board of Trustees of the United Nations Institute for Training and Research (UNITAR) once again considered the issue of rental and maintenance costs charged to the Institute.

2. Relevant paragraphs of two General Assembly resolutions were placed before the Board of Trustees. In resolution 58/223, the General Assembly:

> "...
>
> "10. *Stresses* the need to take action to resolve expeditiously the issues related to the Institute's rent, debt, rental rates and maintenance costs, taking into account its financial situation, and welcomes the consideration of those issues by the Fifth Committee;
>
> "..."

In resolution 58/272, section XIV, the General Assembly:

> "...
>
> "1. *Decides* to cancel the debt of the United Nations Institute for Training and Research in respect of rent and maintenance charges in the amount of 321,184 United States dollars;
>
> 2. *Requests* the Secretary-General to invite the Board of Trustees of the United Nations Institute for Training and Research to rationalize the financial structure of the Institute, including through the possible application of a consistent programme support rate to the Special Purpose Grants Fund in order to bring it in line with the standard rate applied by the United Nations, and decides to revert to the issue at its fifty-ninth session."

3. The Board reiterated its position that UNITAR is totally self-funded, not receiving any kind of subsidies from the United Nations regular budget, and delivers, free of charge, training courses to diplomats and delegates accredited to United Nations headquarters in New York, Geneva, Vienna and Nairobi. Those courses are useful for the civil servants of Member States, in particular diplomats from developing countries, and for the Organization as well, in increasing understanding of issues and procedures. The level of non-earmarked voluntary contributions remains too low to make those programmes sustainable.

4. The Board of Trustees also decided on possible ways to rationalize the financial structure of the Institute and gave necessary guidance to the Executive Director, notably:

(a) To continue to insist to donors of special purpose grants to obtain the full recovery of the programme support costs (overhead), whenever possible, and to bring such recovery in line with the standard rate of 13 per cent applied by the United Nations;

(b) To make sure that any further expansion of training programmes, especially those offered, free of charge, to diplomats and delegates accredited to United Nations headquarters in New York, Geneva, Vienna and Nairobi should be commensurate with the level of resources available for both direct and administrative and common-service costs involved;

(c) To consider the possible downsizing of the number of staff remunerated by the General Fund, if ever realizable.

5. In the light of the actions taken to rationalize the financial structure of the Institute, the Board concluded that the provisions of General Assembly resolution 58/272, section XIV, on the financial viability of UNITAR, are the positive outcome of the consideration of the report of the Secretary-General (A/58/544), in paragraph 36 of which the Secretary-General proposed, in order to compensate the Institute for its expenditures under the General Fund of UNITAR relating to the provision of the training in multilateral diplomacy and international affairs management to the diplomatic personnel of the missions to the United Nations free of charge, to provide UNITAR with an annual subvention in the amount not exceeding its annual rental and maintenance costs.

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Fifty-ninth session
Item 86 of the provisional agenda*
Follow-up to and implementation of the outcome of the International Conference on Financing for Development

Innovative sources of financing for development

Note by the Secretary-General**

1. The General Assembly, in its resolution 58/230 of 23 December 2003, decided to consider at its fifty-ninth session possible innovative sources of financing for development, and requested the Secretary-General to submit the result of the analysis on this issue as called for in paragraph 44 of the Monterrey Consensus of the International Conference on Financing for Development.[1] In the Consensus, heads of State and Government recognized the value of exploring innovative sources of finance provided that those sources did not unduly burden developing countries, and agreed to study, in the appropriate forums, the results of the analysis requested from the Secretary-General on possible innovative sources of finance.

2. In this connection, it should be recalled that the General Assembly, in the context of the five-year review of the implementation of the outcome of the World Summit for Social Development, adopted resolution S-24/2 of 1 July 2000, on further initiatives for social development, in which it called for a rigorous analysis of the advantages, disadvantages and other implications of proposals for developing new and innovative sources of funding, both public and private, for dedication to social development and poverty eradication programmes.

3. In response to the decisions of the Assembly, the Department of Economic and Social Affairs of the United Nations Secretariat commissioned the World Institute for Development Economics Research of the United Nations University (UNU-WIDER) to undertake, during the period from 2003 to 2004, a study of new and innovative sources of development finance. The purpose of the study was not to devise new financing mechanisms for development but to consider some of the better-known existing proposals, focusing on their design and policy implications. An international expert on fiscal issues, Professor Anthony B. Atkinson, Warden of Nuffield College, Oxford University, led the project, which engaged a number of

* A/59/150.

** The present note was submitted to Conference Services on 17 August 2004, upon receipt of the substantive input from the World Institute for Development Economics Research (see annex).

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academics to prepare separate papers on a selection of innovative financing proposals. The UNU-WIDER study, entitled *New Sources of Development Finance*, will be published by Oxford University Press in 2004.

4. An edited version of a policy-focused summary, entitled "New sources of development finance: funding the Millennium Development Goals", prepared by Professor Atkinson in his capacity as director of the UNU-WIDER study, is contained in the annex to the present note. It presents the analytical framework, short summaries of the seven proposed sources of funding (i.e., global environmental taxes, tax on currency transactions, creation of new special drawing rights, an international finance facility, increased private donations for development, a global lottery and global premium bond, and increased remittances from emigrants), an overview of the key findings, and some conclusions.

5. If the world is to achieve the Millennium Development Goals by 2015, we will need not only significant changes in policies and priorities but also a major effort by developing countries and the international community to mobilize additional financial resources. For instance, at the High-level Panel on Innovative Approaches to Financing for Development, held in Sao Paolo on 15 June 2004, it was noted that, two years after the landmark Monterrey Conference, its decisions were not being implemented fast enough. Even the beginning of a recovery in levels of official development assistance in recent years does not offer any realistic prospect of the doubling over 2001 levels that most estimates suggest is needed if the Millennium Development Goals are to be achieved by 2015. There is an urgent need for new resources to deal with a wide spectrum of human hardship. Indeed, even if the Goals were achieved, there would still be hundreds of millions of people living in extreme poverty and work would have to continue for its complete eradication. We would still need a broader, longer-term strategy that would provide the financing for the complete eradication of poverty for infrastructure such as roads, ports and telecommunications, and for such global public goods as fighting communicable diseases and protecting our planet's air, water and land resources. Thus, the new financial resources that are needed should not be thought of as charity, as an imposition on already strained budgets or as a hand-out but rather as investments in the future well-being and security of the world as a whole. There is a need to understand clearly the potential impact of major new arrangements. Analysis, however, should not become an excuse for paralysis.[2]

Notes

[1] *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.

[2] See United Nations press release, "Secretary-General, at Sao Paolo meeting, calls for creative thinking on Millennium goals to attack poverty" (SG/SM/9367-DEV/2475-TAD/1989).

Annex

New sources of development finance: funding the Millennium Development Goals

1. Presented below is a policy-focused summary of the study by the World Institute for Development Economics Research of the United Nations University (UNU-WIDER), prepared under the direction of Anthony B. Atkinson within the framework of the joint project of UNU-WIDER and the Department of Economic and Social Affairs of the United Nations Secretariat on innovative sources for development finance. The study, entitled *New Sources of Development Finance*, which was edited by Professor Atkinson, will be published by Oxford University Press in 2004.

Framework

2. Two powerful and divergent forces grip the world at present. On the one hand, the effectiveness of international organizations has been called into question. The role and functioning of the United Nations is much debated. Some nations exhibit frustration with multilateral cooperation. On the other hand, the recognition is being cemented that a global economy requires global institutions. International organizations are viewed by many as the key to the free movement of goods, services and capital. We have seen the adoption of ambitious development targets in the form of the Millennium Development Goals. Donor countries have pledged increases in official development assistance (ODA).

3. The tension between these two forces pervades discussion of resources for world development. On the one hand, there is talk of "donor fatigue". Ratification is blocked of the amendment to the International Monetary Fund (IMF) articles allowing a special allocation of special drawing rights (SDRs). Proposals for global taxation meet immediate opposition from powerful elements in the United States Congress. On the other hand, there is widespread appreciation of the need for new resource flows to allow the Millennium Development Goals to be achieved. There are interesting new proposals for revenue sources, such as a global lottery or an international finance facility. Individuals continue to support development charities. United States billionaires are personally funding development and world health activities.

4. The direction taken at the present juncture will depend largely on political events and political decisions, but sober economic analysis has an important role to play. The project on innovative sources of development finance, undertaken at the request of the United Nations, examines a range of sources of new development funding. The ideas are not necessarily new. The proposal for a Tobin tax on currency transactions, for instance, has been on the table for more than 30 years. The project report, however, provides a new analysis and sets the various ideas in a common analytical framework based on the application of modern public economics. Moreover, it discusses some proposals of recent origin, such as the international finance facility devised by the Government of the United Kingdom of Great Britain and Northern Ireland, and comes up with one novel suggestion, a global premium bond.

Innovative sources to meet a global challenge

5. At the Millennium Summit of the United Nations in September 2000, the Member States affirmed their continued commitment to sustained development and the eradication of poverty by agreeing to the Millennium Development Goals. They set out a vision of a global partnership for development, directed at the achievement of concrete goals, including the halving by 2015 of the proportion of people living in extreme poverty, of the proportion hungry and of the proportion lacking access to safe drinking water. The objectives include the achievement of universal primary education and gender equality in education, the achievement by 2015 of a reduction by three quarters in maternal mortality and a two thirds decline in mortality among children under five. They include halting and reversing the spread of HIV/AIDS and providing special assistance to AIDS orphans, while improving the lives of 100 million slum dwellers.

6. Since the declaration of the Millennium Development Goals, a number of attempts have been made to estimate the financing requirements. At a global level, the Zedillo Panel estimated conservatively that an additional US$ 50 billion would be required annually to achieve the international development goals. In addition to the financing needs of individual poor nations, there is also the necessity to finance global public goods. The Zedillo Panel[a] argued that there was a strong case for international financing of global public goods, and identified the goods that fell into that category such as peacekeeping; the prevention of contagious diseases; research into tropical medicines, vaccines, and agricultural crops; the prevention of chlorofluoro-carbon emissions; the limitation of carbon emissions; and the preservation of biodiversity. The Government of the United Kingdom estimated that to achieve universal primary schooling needs some US$ 10 billion more each year, that to reduce infant and maternal mortality requires an extra US$ 12 billion a year and that halving world poverty requires an investment of up to US$ 20 billion a year. All such figures are estimates, and involve matters of judgement, but it seems reasonable for present purposes to take a figure of an additional US$ 50 billion as being required annually to achieve the international development goals. This is the "ballpark" figure used here.

7. The aim here is to investigate ways in which such additional resources can be financed. How can we find an extra US$ 50 billion for development funding? Our focus is on flows of resources from high-income to developing countries. In so concentrating, we are not denying the importance of resources channelled into development by developing countries themselves, or seeking to underplay the potentially significant contribution of middle-income countries to development funding. A second delimitation is that our primary concern is with the funding side, not with the spending side. The two sides cannot of course be fully separated: uses of resources may affect their availability. Our ultimate objective in the present report is, however, to analyse possible sources of funds.

8. There is a wide range of such services, including global taxes. They differ in the degree to which they represent a radical departure. In some cases, such as private donations or remittances by emigrants, the aim is to raise the scale of already existing flows of resources. In other cases, such as the international finance facility, a new mechanism would have to be put in place. Both global taxes and the global lottery or premium bond would be fundamental departures.

9. It will be evident that our coverage is far from exhaustive. In the case of global taxes, there are a number of other candidates: a brain drain tax; an international air transport tax; taxation of ocean fishing; taxation of arms exports; an Internet tax; and a luxury goods tax. Each of these warrants examination. We are not arguing that the global taxes investigated here are superior to those not covered. Rather we have taken two of the most widely discussed — the Tobin tax and environmental taxes — as examples of possible global taxes. Similarly, it should be stressed that the coverage of non-fiscal measures is not exhaustive. We do not, for example, cover measures to raise capital funds in developed countries or measures to leverage the funds arising from trade. Neither do we consider the important role of foreign direct investment.

10. Global taxes require agreement by national governments. The proposal for a new round of SDRs requires high-income countries to agree to make them available for development purposes. The proposal of the United Kingdom Government for an international finance facility in effect involves a pre-commitment of future ODA in a way that allows leveraging on the capital market. In contrast, the remaining three schemes involve a degree of voluntary choice by individuals. The choices range from a voluntary transfer, as when people give their small change to the United Nations Children's Fund (UNICEF) or make regular payments to Oxfam, to buying tickets in a global lottery, where the transfer of profits to development purposes is only a subsidiary motive. It includes proposals to increase the remittances sent home by workers abroad that can increase the flow of resources available for development.

Role of new sources

11. Each of the proposals raises distinct issues, and these are considered in the separate sections below. One of the contributions of the present report is to bring out a number of overarching issues. First, there is the relation with ODA. The target of an additional US$ 50 billion could be achieved by a doubling of ODA, and a number of donor countries have recently pledged to increase the proportion of their national income devoted to ODA. If all donors reached the United Nations target of 0.7 per cent of gross national product (GNP), then the search for new sources would become redundant. Welcome steps have been made in the direction of increasing aid flows, but this takes time, and time is of the essence. For this reason alone, it is necessary to consider new sources, as we do here.

12. In debating the merits of new sources of development funding and contrasting them with increased ODA, there is risk of confusion. We need to distinguish carefully two different comparisons. The first is between the current position and a situation in which there are new sources raising US$ 50 billion to fund the Millennium Development Goals. We are then comparing the economic costs of the tax with the benefits to be derived from funding the achievement of the Goals. To argue against the new sources, one would have to say that the costs are too great, compared with the benefits. The second comparison is between new sources for raising US$ 50 billion, and increased ODA in the same amount. We are then holding constant the contribution to development funding and considering different methods of financing. It would be a legitimate argument against the new sources to say that their cost is too great, compared with the cost of raising the domestic taxes necessary to fund the increased ODA by donors.

Global public finance

13. How far can we bring to bear on the funding of the Goals accumulated knowledge in the field of national public finance? One interesting point of departure is to consider the taxes and transfers that might be instituted by a world government. There is no possibility of such an institution being created in the relevant time frame, but it provides a reference point to illuminate the actual policy issues. It may also serve as a moral challenge.

14. If such a global government were to act in the interests of world citizens as a whole, then global welfare maximization is likely to imply substantial positive taxes on almost everyone in richer countries and substantial transfers to the majority of people in low-income countries. It is important here to distinguish between low-income people and low-income countries, since there are obviously well-off people living in poor countries and these people would be expected to be taxpayers. In rich countries, an optimal tax scheme does not necessarily mean higher marginal rates of tax. The greater transfers could be accomplished by raising the average tax rate, for example, by reducing the tax thresholds. One implication is that much of the cost of increased transfers could fall on those in the middle of the range of income distribution in rich countries (and on those in middle-income countries), since those in the middle ranges account for a large fraction of total income. On the other hand, there has been a major shift in the distribution of income towards the top in countries such as the United States of America, Canada and the United Kingdom. The share of the top one per cent in the United States has doubled in 20 years. There is much greater scope for raising tax revenue from the globally rich.

15. This brings us to the political economy of new sources. The feasibility of new sources of funding for development is ultimately a political issue, and we have to consider not only how a government should behave but also how they do behave. What is the likelihood of different proposals being adopted? How can they be designed to increase their political acceptability at a global level?

Lessons from fiscal federalism

16. Any foreseeable global tax will be introduced, not by a unitary world government, but as the result of concerted action by nation states. This leads one to ask which lessons can be drawn from fiscal relations in federal states. Within many countries, there are subnational governments with independent fiscal responsibilities. Indeed, a number of these nation states emerged as a result of the voluntary association of previously independent states. The parallel is, of course, inexact. The economic, social, cultural and institutional differences among nations are more pronounced than those within the typical federation. There are, however, interesting lessons. The fiscal powers of sub-governments mean that we cannot envisage taxing people independently of their fiscal residence. The notion of distributional justice that can be pursued in a federation is that of inter-state equity, with fiscal equalization being carried out between governments.

17. What may induce individual governments to back new sources for development funding? We start from a position where donor countries make significant transfers via ODA and where the citizens of those countries make private donations. The coexistence of public and private transfers means that either the

government is not providing aid of the quantity and/or type that its electorate prefers or that there are differences of views among voters. Citizens cannot spend less than their government chooses, but they can add private transfers to official aid. How, in such a context, can we interpret the impact of the adoption of the Millennium Development Goals? Have donor governments moved closer to the level of ODA that their voters preferred? In that case, we might expect the expansion of public transfers to be partially offset by a scaling back of private donations. Have governments sought to bring about a shift in public opinion in favour of increased support for development? In this case, we may even see an increased flow of private donations.

Fiscal architecture

18. If the new sources require governmental action (as noted, not all do), does the success and effectiveness of any particular proposal depend on complete adhesion of all donor countries? The natural instinct of many people is to assume that there is an inherent "free-rider" problem and that there has to be general, if not universal, agreement. In the present climate, with multilateralism under question, this presumption provides grounds for pessimism about the chances of making progress. Suppose we start from the position that universal agreement may be impossible and examine the implications of going ahead with a subset of countries? The United States has so far prevented the creation by IMF of special drawing rights, and in this case no action seems possible. However, it does not follow that other measures are also blocked. With the other six proposals, it would be possible, at least theoretically, for progress to be made even without the agreement of all major countries. Here we can learn from the internal experience of the European Union which has in the past faced situations where one member State has chosen to opt out of collective decisions. In these circumstances, flexibility in the resulting institutions has allowed the majority to respect that decision but still make progress towards achieving the majority's objectives. There is "flexible geometry". Partial adhesion has costs, but the issue becomes one of balance, rather than an absolute block on action.

19. In the case of a global tax, we have to ask how it would be administered. National governments determine the rates of taxation and the tax base. Individual taxpayers pay the taxes to the government, which both enforces payment and is in turn accountable to the electorate. Many taxes involve intermediary agents. The individual taxpayer, for example, in paying the aircraft departure tax to the airline, which then accounts for the revenue to the government.

20. One evidently cannot apply exactly the same process to global taxation. We have both global institutions and national governments, and it is the latter which have to agree to the taxes being levied and which are accountable to their electorates. It could indeed be the case that the global tax is treated as simply a glorified domestic tax, with the revenue being forwarded by national governments to a global spending body. If there were an international air transport tax determined at the global level, then the airline could transfer the money, not to the national government, but to a global tax authority, in which case the new source of finance would bring a new actor into play. Alternatively, national governments retain not only control over the administration of the tax process but also discretion over the tax rates. In this case, participating governments would agree on their national tax

liability but retain the freedom to decide how the revenue is to be raised. This would in effect be applying the principle of subsidiarity adopted by the European Union. To give a concrete illustration, suppose that the participating governments agree that each country should pay a tax related to national carbon emissions. This determines the amount that each participating country has to pay, but the national government would remain free to raise the revenue in whichever manner it thought fit. The national government might consider, for example, that a tax on air journeys was unfair on those living in remote rural areas and choose for domestic reasons a different tax base. We would then have a two-tier structure, with the national tax obligation requirement being agreed multilaterally but the tax implementation being chosen locally. Countries with more emissions would pay more total tax, but this would not necessarily mean higher fuel taxes. Income tax or a broad-based value-added tax could be raised instead. One reason why, under the subsidiarity architecture, a national government may choose a different tax base is that it faces political opposition to a particular form of taxation. The fuel tax protests in Europe in 2000 provide a good illustration.

Proposed sources of funding

Global environmental taxes

21. The taxation of environmental externalities is an obvious potential source of revenue, not least because — as discussed below — such taxes are often thought to give rise to a double dividend, that is, both generating revenue and helping to reduce environmental damage.

22. Much of the economics literature relates to taxes as instruments of national policy. There are, however, useful lessons for global environmental taxes. Calculation of the optimal tax should include an element that reflects the marginal environmental damage (external diseconomy) associated with an activity, such as the consumption of fuel. The tax should be targeted as far as possible to directly influence the activities and to be neutral with respect to other decisions. The main alternative to taxes is the use of quantitative regulations and quotas. The auction of tradable emission permits may, under certain conditions, generate the same revenue and be as effective in reducing pollution.

23. Moving to a global level, one has to ask why, if a carbon-use tax would reduce external diseconomies, is this not already reflected in domestic taxes? One response is that the dividend is in part global rather than national. National governments may not impose sufficient corrective taxes because the benefits accrue disproportionately outside their boundaries. A switch from general taxation to carbon-use taxation may be a positive sum game globally but a negative sum game nationally. There may, therefore, be a case for a supplementary global tax. Does this mean that the global tax should be levied at the same rate on all countries? To the extent that emissions impose environmental damage wherever they occur, the corrective tax should be the same. However, this needs to be moderated to take account of the unequal distribution of world income — the very reason for our current interest in the tax. Considerations of global justice point to poor countries bearing less of the cost burden, and may justify the tax being levied only on high-income or middle-income countries.

24. A global tax on carbon use at a rate equivalent to a tax on gasoline of 4.8 cents per United States gallon (approximately €0.01 per litre) levied only on high-income countries could indeed raise some US$ 60 billion a year. Such a rate of global tax would represent a very small addition to those applied by many national governments, and is an order of magnitude smaller than the increases considered in proposals to halt global warming.

25. How is this potential argument for additional environmental taxation affected by the fiscal architecture? We are presupposing that the tax is indeed levied on individuals and firms in the form of a carbon levy (or other environmental tax base). Suppose, however, that we have subsidiarity, where the burden on national governments is determined by their carbon emissions but the national governments are free to decide how to raise the revenue. As noted above, they may, for political or other reasons, choose another tax base. It is still, however, the case that the government faces a financial incentive to reduce its emissions by other policies, such as auctioning emission permits or regulation.

Tobin tax

26. The second major proposal for global taxation considered here is that for a currency transactions tax, first advanced by James Tobin to combat financial volatility. The potential of the currency transactions tax as a generator of revenue was suggested as a by-product. Here we focus on the by-product: the Tobin tax as a source of revenue for development. One important difference is that we are talking about much lower rates of tax. Some proponents have considered taxes as high as 0.25 per cent on a transaction to discourage excess currency speculation. In contrast, a rate of 0.01 or 0.02 per cent could be adopted for revenue-raising purposes. Such a global tax could, it has been estimated, raise annual revenue of around US$ 17 billion (tax of 1 basis point) or US$ 30 billion (0.02 per cent).

27. Much of the debate has revolved around the technical feasibility of the currency transactions tax. The financial markets are continuously developing, with new financial instruments being devised. The market structure is evolving with technological progress and in response to competitive pressures and regulation. Even at rates of 0.01 or 0.02 per cent, the tax may shift financial activity and encourage banking consolidation. These considerations lead one to suggest that, if implemented, the currency transactions tax should be introduced cautiously, at a very low rate. The very high expectations raised in the past with respect to the revenue contribution of a currency transactions tax are not as yet warranted. Moreover, the final distributional effects, and the impact on real transactions, are hard to predict. We can treat the currency transactions tax as an excise tax on all purchases according to their foreign exchange content. Some transactions are particularly affected, notably the remittances from emigrants discussed below.

28. Introduction of a currency transactions tax requires wide agreement. Whether it requires universal agreement, and in particular the agreement of the United States, is actively debated. Proposals have been made that the Tobin tax could be implemented by a group of countries such as the European Union plus Switzerland. Such an approach based on flexible geometry may offer a way forward politically but it introduces a further element of uncertainty regarding the impact of the tax. The effect on the euro-zone, and on Europe's financial centres of Frankfurt and

London, is hard to predict. The financial community tends only to see a loss of competitiveness, but if the tax performs its original function of increasing stability, then the euro may become more attractive.

A double dividend?

29. The standard analysis of tax incidence is based on examining a world of perfectly competitive, perfectly functioning markets. In such a context, governmental intervention — whatever its distributional advantages — has an efficiency cost. Real world economies, however, are not characterized by perfect markets, and one of the major contributions of modern public economics has been to explore the implications of market failure. Both of the global taxes discussed above are in fact directed at improving the allocation of resources. A tax on the consumption of goods that harm the environment has a positive allocational effect, switching spending away from polluting goods towards those causing less or no environmental damage. The currency transactions tax was proposed to dampen destabilizing currency speculation.

30. Do we then have a double dividend? Global taxes can generate a double dividend in two ways. If the new tax is seen as an alternative to ODA, then it can both make its own efficiency contribution and allow a reduction in the taxes presently used to finance ODA. Taxing air transport, for example, not only reduces the environmental damage of tourism but also allows the income tax to be reduced. Taxing carbon may allow payroll taxes to be reduced, leading to a fall in unemployment. There is an employment dividend as well as an environmental dividend. The second possibility is that the new source is a net addition to development resources. In this case, the double dividend consists of the reduced environmental damage and the benefit derived from achieving the Millennium Development Goals.

31. The double dividend idea appeals to the imagination. Two notes of caution should, however, be entered. First, we have seen that the tax required for allocational reasons is likely to be considerably higher than that needed to add significantly to development funding. The carbon-use tax can make a major contribution to raising revenue at a much lower rate than that suggested as needed to halt global warming. (Taking this argument to the limit, we may note that a carbon tax that reduced emissions to zero would be an environmental success but a revenue failure.) The second caution concerns political economy. Linking together two causes — saving the planet and funding the achievement of the Millennium Development Goals — may appear to be building a stronger coalition of support. This argument is related to the classic model of "log rolling", where two politicians agree to support each other's projects. However, the log-rolling model assumes a particular distribution of benefits and losses from the projects, the former being concentrated and the latter diffused. But the reverse may also be true: the costs may be largely borne by a small interest group (such as energy producers) and the benefits widely dispersed. To be more specific, opening up two fronts invites attack from both directions, particularly if the two objectives require taxes at very different levels.

Special drawing rights for development

32. There has long been a campaign for the issue by IMF of development-focused SDRs. The original purpose of SDRs was to increase international liquidity, but attention has focused more recently on their potential role in providing funds for development finance. Proponents, such as George Soros, have argued that new SDRs should be created and that the developed countries should reallocate their share of the SDR issue to the funding of global public goods and to supplementing aid flows to individual developing countries. These calls have to be seen in a context in which developing countries have been accumulating substantial reserves in order to reduce their vulnerability to crises. To the extent that these reserves are held in United States government bonds, there is an obvious link with the funding of United States deficits. The Zedillo Panel argued that substantial SDR allocations might help shrink the United States deficit while allowing other countries to continue to build up the reserves that they feel they need.

33. An allocation of US$ 25 to 30 billion in SDRs would represent a sizeable sum in relation to the funding needs for the Millennium Development Goals. Its contribution would, however, depend on whether it is repeated at regular intervals. Moreover, the contribution to development from SDR creation has to be identified more precisely. The problem arises from the obligation to make interest payments on the total allocation. If the obligation is transferred to the recipient country or to a global public goods agency, then the financing amounts to a low-interest loan. If, however, the donor countries bear the interest cost, then it would be equivalent to ODA. In the latter case, the advantage of the SDR route may be questioned.

34. Issues also arise concerning governance. There needs to be greater clarity as to the criteria by which the priorities for global public goods should be established, not least because there are significant differences in the lists usually given.

Proposal by the United Kingdom for an international finance facility

35. Innovation in the sphere of public finances has not always kept up with innovation in private financial markets. Making use of the latter to enhance the effectiveness of ODA is the essence of the recent proposal by the United Kingdom Government for an international finance facility, involving the creation of a new facility designed to achieve additional finance and to ensure effective use of the funds for development purposes.

36. The key elements in the proposal are:

(a) Significant increase in annual ODA for a limited duration, timed to achieve the Millennium Development Goals by 2015;

(b) A pre-commitment, so that the promises can be securitized;

(c) Allowing a substantial immediate increase in development spending.

37. The facility would effectively "front load" long-term aid flows. It has the advantage in that it does not require universal agreement. It is an example of the power of flexible geometry. The involvement of all rich countries is not required. Provided that sufficient like-minded countries participate, the facility could generate

an increase in funds of the US$ 50 billion magnitude required. This assumes that the sums pledged would be additional to those already being provided by donor countries. To the extent that the facility displaces existing aid, there would be the advantage of ensuring a predictable and stable flow of aid, but the net gain would be much less impressive in magnitude.

38. Provided that the donor commitments are achieved, the disbursement of funds from the international finance facility would increase from US$ 10 billion in the first year to US$ 50 billion in five years, remaining constant at that level for five years before declining to zero over the final five years. The central aim in establishing the facility is indeed to change the time path of aid flows. This may bring with it certain problems. Advancing disbursements raises issues of absorptive capacity and the impact on the macroeconomies of recipient countries. The new facility builds in safeguards but a great deal may depend on domestic economic policies. The other side of the coin is the subsequent scaling back of flows to zero. Extra donor contributions (above the 2002 base) are projected to continue from 2020 to 2032, with the entire sum allocated to debt servicing and replenishment of the facility's reserves.

Private donations for international development

39. Charitable giving in rich countries is very substantial: in the United States of America, more than 1.5 per cent of national income. People give, in addition, large amounts of free time. Development, however, commands only a small share. A great deal of philanthropic activity in rich countries is aimed at domestic concerns, although there are differences across countries, with Germany being a country where a larger fraction goes to fund overseas development. The amount raised by UNICEF national committees ranges from 9 United States cents per capita in New Zealand to nearly US$ 4 per capita in Luxembourg. Overall, giving in the United States and the United Kingdom appears to be a larger proportion of total income for both poor and rich households. At the upper end, there are a number of charitable foundations with development interests, such as the Ford Foundation, the Rockefeller Foundation, and, more recently, the United Nations Foundation and the Gates Foundation.

40. Present flows of private donations for development purposes are small when viewed in relation to the needs for funding the Millennium Development Goals, but they are significant for psychological reasons. The example of individual citizens may encourage governments to be more generous. It is, therefore, important to examine the potential for raising private donations. We have, however, to recognize that development funding lacks many of the features that attract charitable giving. It is concerned with long-term development rather than urgent relief; it involves communities that are geographically distant, where there is little direct contact; and there is little scope for the volunteering of time. Possible policy directions are: more generous tax incentives for donors; measures to encourage payroll giving; the establishment of global funds to focus the attention of large private donors; new forms of corporate giving; Internet giving; and donor education programmes.

Global lottery and global premium bond

41. The use of lotteries by national and local governments to raise funds for public sector projects is now commonplace. World sales of gaming products are large: some US$ 120 billion per year. The idea of a global lottery to raise money for development has received attention, particularly in the light of the recent proposal of the Crisis Management Initiative, under the impetus of President Martti Ahtisaari of Finland. The proposal is for national versions of the global lottery game, with part of the net proceeds being transferred into a global lottery fund to be run by the United Nations or another agency. The net yield is hard to estimate, but it could be around US$6 billion a year.

42. The design of a global lottery involves the same issues as a national lottery, with regard to its form (an instant product such as a scratch card or a regular draw, such as Lotto) and the prize structure. There are, however, additional matters to be resolved. In order to secure acceptance by national lottery operators and to avoid opposition from their beneficiaries, it may be necessary to differentiate the prize structure: for example, by reducing the size of the top prizes. This may lead to the global lottery offering different rewards across countries, with the attendant problems of cross-border betting. The marketplace has become even more crowded with the rapid growth of online gambling.

43. A global lottery will raise money from those who switch their loyalty from existing lotteries and from new players, motivated by the use of funds for development purposes. While empirical evidence suggests that low-income groups in developed countries spend a larger proportion of their income on lottery products, the new players may be drawn from higher up the income scale. It remains possible, however, that compared with ODA financed through income tax, the global lottery is regressive in its effect on the distribution of income in developed countries. However, compared with nothing (i.e., lower development funding), it is likely to be progressive in terms of world income distribution.

44. A related but different idea is a global premium bond. This is a loan instrument where the interest takes the form of a lottery prize, the capital being repayable on request. Premium bondholders never lose their investment but the return depends on their luck. In fact, the premium bond is financially equivalent as a transaction to placing money in a regular savings bank and drawing out the interest each month to buy lottery tickets. Experience in the United Kingdom suggests that this appeals to a different market, with the middle-income and upper-income groups participating, whereas they do not take part in the national lottery. This may in part be explained by differences in the prize structure and in the tax treatment, but it may also reflect a difference in perception. A global premium bond may also attract those who wish to lend for development purposes (the same function could of course be performed by a conventional savings bond for development). The scale of loan finance permitted by issuing global premium bonds is very difficult to estimate, but this novel idea seems well worth pursuing further.

Increasing remittances by emigrants

45. Remittances from migrants are a market-based external source of development finance, which have, according to published estimates, increased steadily from

around US$ 15 billion in 1980 to US$ 80 billion in 2002. These are large flows, second only to foreign direct investment as a component of external resource flows to developing countries. To an important extent, remittances finance consumption and may be seen as an instrument of global redistribution: that is, an international mechanism for social protection. They are also a source of finance for capital formation, providing community infrastructure (such as schools) and funds for the financing of new enterprises. Remittances are channelled through a variety of financial entities, ranging from the formal to the highly informal, and the latter may not be fully reflected in the official statistics quoted above.

46. There are several different motivations for remittances. Transfers may be made because the migrant wishes to help family members who have stayed at home; transfers may be a form of saving, providing for a later return home; there may be repayment of loans that allowed the migrant to study and travel abroad; and emigration may be part of a co-insurance strategy, with remittances being made when the migrant is successful and the family at home guaranteeing support in the case of failure. The balance of these different motives will affect the likely time path of remittances over the life cycle of the migration process, and the extent to which remittances augment savings as opposed to consumption.

47. The most obvious means of increasing the scale of remittances is to adopt policies to reduce the cost of sending money. Many migrants face difficulties accessing bank services; the bank services are not well tailored to their needs. Competition could increase bank receptiveness to the requirements of migrants, and measures could be taken to facilitate entry into the money transfer business, such as reducing licence costs. It is, however, hard to predict the quantitative impact of such measures, and it must be recognized that a number of measures run counter to the recent trend towards tightening regulations so as to counteract money-laundering and the financing of terrorism.

Towards new funding

Conclusions

48. Our objective in the present report is to determine the contribution of new funding sources to financing the achievement of the Millennium Development Goals. Many of the proposals have multiple objectives. The creation of SDRs was first proposed to ease problems of international liquidity, but here we are concerned with their potential role for development purposes. The Tobin tax was first proposed as a means of coping with financial volatility; here we are primarily concerned with its potential as a generator of revenue to be used to finance development.

49. The first conclusion is that the two global taxes considered could yield revenue of the magnitude required (tax on carbon use) or at least half of the requirement (Tobin tax at a rate of 0.02 per cent). Moreover, the tax rates required for this purpose are of an order of magnitude smaller than the tax rates proposed by those advocating these taxes on allocational grounds. The Tobin taxes proposed to reduce excessive currency speculation have been of the order of 0.10 or 0.20 per cent — ten times that considered here. The energy tax considered here has a rate of one tenth or one twentieth of those typically considered in the literature on global warming. The taxes are not, therefore, guaranteed to have the major behavioural

impact, discouraging pollution and speculation, which has been sought. This conclusion has both negative and positive aspects. On the minus side, it means that the double dividend — of increased revenue plus improved functioning of the economy — may fall short on the second dimension. But it is revenue that is our concern here. The second aspect is positive, which is that the much more modest tax rates envisaged here are more acceptable and less likely to have disruptive economic consequences.

50. The second conclusion is that there are alternatives to global taxation. The international finance facility proposed by the United Kingdom Government could, if it attracts sufficient support from other major donors, yield flows over the crucial period up to 2015 of the magnitude required. (At the same time, it is open to question how far this differs from a commitment to expand ODA.) The creation of SDRs for development purposes has been envisaged as raising some US$ 25 billion to US$ 30 billion. This means that it could contribute a significant part of the total, but would need to be combined with other measures, particularly if such allocations were made less frequently than annually. One such additional source is the global lottery, which is potentially the source of significant revenues, provided agreement can be reached with national lotteries. A global premium bond could provide a flow of loan funding not otherwise available. Supporting roles could be played by increased remittances from emigrants and, on a more modest scale, increased private donations.

51. In each case, however, we have to consider the extent of additionality. The third conclusion is that there is a distinct risk of crowding out. Countries signing up to the international finance facility may implicitly offset this commitment against their regular ODA. The same may apply to countries that transfer any new SDR allocation. Agreement to the introduction of a global tax may mean that governments feel less pressure to increase their ODA, or that firms are less likely to contribute to charitable funding of development. Measures to stimulate private donations may adversely affect other forms of giving. Issuing a global premium bond may crowd out other borrowing for development purposes, although this is less likely if it is targeted at the individual investor.

52. How far do the proposals have advantages other than the revenue raised? As noted, the proposed tax rates are much lower than those advocated for other purposes, but both energy use and currency transaction taxes have the potential to act as corrective taxes. There is an allocational benefit rather than a deadweight loss. In the same way, tax incentives insofar as private donations and remittances by emigrants may act to encourage an activity that is undersupplied, a gift benefiting the recipient as well as the sender. The fourth conclusion is that there are possible double dividends, but they are a by-product, not the primary rationale of the proposals. The double dividend argument should not be oversold.

53. The existence of a double dividend does not mean that there is no cost. With an ordinary tax, the burden of a tax generating US$1 billion can be said to consist of two parts: the US$1 billion that taxpayers hand over, and the additional deadweight cost (excess burden) due to the distortion of economic decisions. Where there is a double dividend, the second element becomes a benefit: decisions are improved by the corrective tax. But the first element remains: revenue is still raised. There are good reasons to expect that the taxes will be passed on to final users. This applies to energy taxes, where we have to follow through the full input-output implications.

People tend to think immediately of the impact of a carbon tax on the fuel and transport costs of households, but energy costs enter also as input in other sectors. The operating costs of the financial sector, for example, will be increased, so that part may appear as higher prices for apparently unrelated products. In the case of the Tobin tax, one disadvantage is that the final incidence is not easily determined. Part of the burden may well fall on developing countries: for instance, if the tax reduces the effective flow of remittances from emigrants. The other measures too may have costs. The increase in ODA that is effectively envisaged under the international finance facility has to be funded, and future commitments may affect the budgetary position of donor countries. Tax relief for remittances by emigrants has a cost to the host countries. The fifth conclusion is that it is illusory to suppose that simply adopting an alternative funding route avoids all costs.

54. For both double dividends and cost burdens, one important consideration is the impact on the macroeconomy. It is the specific purpose of some measures, such as the creation of SDRs, to stimulate the world economy. Given significant unemployment and underuse of productive capacity, it may be possible to generate new resources at little or no real cost. Donor countries may, via the international finance facility, be able to engage in borrowing in a way that acts as a macroeconomic stimulus. In the opposite direction, a significant increase in funding for development may run into absorption problems. Here, we have not attempted to assess these macroeconomic arguments, but they are potentially important. A sixth conclusion is that the policy towards funding the achievement of the Millennium Development Goals has to be seen in conjunction with stimulating the global economy and with an eye to the absorption issue.

Way forward

55. There are obstacles to each of the proposals that must be overcome. This is largely a question of design. For instance, the prize structure of the global lottery can be constructed in a way that helps to differentiate the product from that of national lotteries and to avoid the possibly negative effects of astronomical prizes. We have described ways of increasing the efficiency of the market for remittances. Any realistic programme is likely to consist of a package of measures. While a carbon tax alone might be sufficient to raise the required funds, this is not true of the other proposals considered here. Such a package could be constructed by the United Nations and other international agencies, which would monitor its introduction.

56. Overcoming the obstacles is, however, primarily a matter for political action. Who are the key actors? To begin with, there is an essential role for the individual citizen. Individuals can contribute significantly both by their private support and by their influence on governments. Individuals make generous donations to charity, but relatively little goes to development purposes. We have seen how there is considerable scope for the globalization of charitable giving. Increased support for development charities serves both the direct purpose of helping poor countries and the indirect purpose of demonstrating to the governments of rich countries the concerns of their voters.

57. National governments are indeed crucial. First, they have a considerable independent impact. Acting alone, the government of a rich country can take steps

to increase the flows of finance for development. A single country could, for example, allow income tax deductions for taxpayers sending remittances to fund community projects in the home country. A single country could launch a premium bond dedicated to development funding. A single country could decide to allocate to development purposes part of the proceeds from its national lottery. A single country could match, from public funds, the amounts donated by its citizens to development charities.

58. Matching also applies at the international level, and governments may be more willing to provide funding where others are also participating. The logic of the international finance facility is that a number of countries join together in making the commitment. This brings us to the class of proposals where common action is required but it is sufficient for a significant subset of countries to agree. This includes the international finance facility and the global lottery. Finally, there are those proposals where the involvement of all donor countries is effectively necessary. This includes the creation of new SDRs and (probably) the carbon tax.

59. Our focus has been on the role of high-income countries, but the present report is not only directed at these countries. Middle-income countries are becoming increasingly significant as potential sources of development funding. There is much that developing countries can do to facilitate the effective enactment of the proposals considered here and to take forward the necessary dialogue.

Notes

[a] The High-level Panel on Financing for Development, led by the former President of Mexico, Ernesto Zedillo. For the report of the Panel, see A/55/1000.